

## Strong ethanol sales improve profitability...

Dwarikesh Sugar (DWL) reported strong results with 29.9% revenue growth led by 25.6% growth in sugar revenues & 100.5% growth in distillery sales. It sold 1.52 lakh tonnes (lt) of sugar in Q4, including 0.8 lt of exports. Domestic realisation was down 2.5% to ₹ 31.2/kg mainly due to peak crushing season & low winter demand. Distillery volumes grew 75.3% to 1.28 lt on the back of smooth offtake by OMCs & ramping up of utilisation of 130 KLD distillery. Moreover, distillery realisation increased 13.6% to ₹ 57.6 /litre given the company has sold only B-heavy ethanol during the quarter. Operating profit increased 47.3% to ₹ 82.4 crore with strong sales of B-heavy ethanol, which fetches ~25% more realisation compared to conventional C-heavy ethanol. With strong growth in operating profit & stable interest cost, PBT increased 70.5% to ₹ 63.3 crore. PAT grew slower at 8.8% due to tax write back in base quarter. DWL generated ₹ 295 crore of cash flow from operations in FY21E mainly due to strong profitability & inventory reduction. Further, it has been able to reduce total debt by ~₹ 230 in the last one year.

## High global sugar prices to drive exports

Global raw sugar prices have increased ~20% in the last six months, which resulted in acceleration in India sugar exports programme. Out of the 6.0 million tonnes (MT) of export quota, the industry has contracted for ~5.5 MT. We believe entire 6 MT of exports would be contracted by May end. Moreover, with expected lower Brazilian sugar production, sugar prices are likely to move up above 20 cents/lb in the next six to eight months. We believe the industry would be able to further export in next one year under open general licence (OGL) without any subsidy. We expect DWL to export ~80,000 tonnes in FY22E, which would further rationalise sugar inventory & considerably reduce working capital debt in the next one year.

## Distillery volumes to drive earnings

DWL sold 3.2 crore litre of distillery volumes in FY21. It would be only producing B-heavy ethanol in FY22E, which would improve its capacity utilisation. The company would be able to produce 5.5 crore litre in next sugar season. Moreover, it is contemplating capacity greenfield distillery at one of its plant to utilise the sugarcane juice route to produce ethanol. We expect distillery volumes of 4.9 crore & 6 crore litre in FY22E & FY23E, respectively. This would result in 43.4% revenue CAGR in distillery sales.

## Valuation & Outlook

With expected exports, DWL would be able to substantially reduce its sugar inventory in the next one year. Further, increasing distillery volumes through B-heavy & sugarcane juice route would drive growth in operating profit. We expect ₹ 485 crore of operating cash flow generation in the next two years, which would fund capex for new distillery and also result in debt repayment to the tune of ₹ 260 crore. We expect 30% earnings CAGR on the back of strong operating profit growth & interest cost reduction. We change our rating from HOLD to **BUY** with a revised target price of ₹ 62 (earlier ₹ 36).



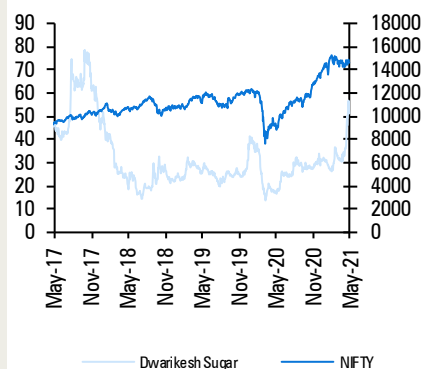
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	962.2
Total Debt (FY21)	556.8
Cash and Investments (FY21)	1.2
EV	1,517.8
52 week H/L (₹)	59.7 / 16.3
Equity capital	18.8
Face value (₹)	1.0

### Key Risk

- Any improvement in Brazilian sugar production could lead to subdued global sugar price & would increase Indian Sugar industry's dependence on export subsidies
- Any delay in distillery expansion plan could impact earnings trajectory in future

### Price Performance



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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Total Operating Income	1084.1	1336.2	1838.9	1821.7	1773.4	-1.8%
EBITDA	129.1	136.1	201.3	235.2	267.1	15.2%
EBITDA Margin %	11.9	10.2	10.9	12.9	15.1	
Net Profit	95.1	73.5	91.5	132.4	154.6	30.0%
EPS (₹)	5.1	3.9	4.9	7.0	8.2	
P/E	10.1	13.1	10.5	7.3	6.2	
RoNW %	20.5	15.2	15.8	19.2	19.0	
RoCE (%)	11.8	9.0	14.4	18.0	18.2	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	600.0	461.8	29.9	381.2	57.4	The strong growth in sales was led by 100.5% growth in distillery segment & 25.6% growth in sugar segment
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	451.5	348.4	29.6	309.2	46.0	
Employee Expense	29.8	23.4	27.6	25.0	19.4	
Other operating Expenses	36.3	34.1	6.5	23.9	52.0	
EBITDA	82.4	56.0	47.3	23.2	256.0	Operating profit increased by 47.3% mainly on account of strong growth in B-heavy ethanol sales
EBITDA Margin (%)	13.7	12.1	162 bps	6.1	766 bps	Operating margins improved 162 bps
Depreciation	10.4	10.1	2.4	10.3	0.8	
Interest	10.1	10.2	-0.6	9.6	5.1	
Other Income	1.3	1.5	-7.7	4.1	-66.8	
PBT	63.3	37.1	70.5	7.3	767.9	With strong growth in operating profit & stable interest cost, PBT increased 70.5% to ₹ 63.3 crore
Tax Outgo	15.0	-7.2	NC	-0.2	NC	
PAT	48.2	44.3	8.8	7.5	544.1	Net profit grew by 8.8% due to the tax write-back in base quarter
<b>Key Metrics</b>						
Sugar sales volume (in tonnes)	152,310	122,850	24.0	103,790	46.7	Sugar volumes increased 24% led by 79,500 tonnes of exports
Domestic Sugar realisation (₹ per kg)	31.2	32.0	-2.5	31.8	-1.9	Domestic sugar realisation was muted due to peak crushing season & low winter demand
Distillery volumes (in crore litre)	1.3	0.7	75.3	0.6	128.6	Distillery volumes saw strong growth of 75% on the back of smooth lifting by OMCs
Distillery realisation (₹ per litre)	57.6	50.7	13.6	46.5	23.9	Distillery realisation improved as the company sold entire B-Heavy ethanol during the quarter

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ (Crore)	FY22E			FY23E			Comments
	Old	New	% change	Old	New	% change	
Net sales	1569.8	1,821.7	16.0	1,663.8	1,773.4	6.6	With global prices moving up sharply, we believe the company would be able to liquidate excess inventory in FY22E. Hence, we change our sugar volume estimates. We also change distillery volume estimates for FY22E & FY23E
EBITDA	213.2	235.2	10.3	250.1	267.1	6.8	
EBITDA Margin (%)	13.6	12.9	-67 bps	15.0	15.1	3 bps	
PAT	131.2	132.4	0.9	154.2	154.6	0.3	
EPS (₹)	7.0	7.0	0.5	8.20	8.2	0.2	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Sugar Sold (in tonne)	317,700	387,848	494,890	440,452	396,407	373,789	373,789	We change our sugar volume number with higher visibility on exports after surge in global sugar prices
Sugar Price (₹ per tonne)	29,628	31,300	31,791	33,600	34,500	33,500	34,000	We change our sugar realisation estimates for FY23E given sugar inventory levels are rationalising & domestic prices are likely to move up
Distillery volume	9,017	11,600	31,700	49,335	59,800	42,900	57,500	We change our distillery volume estimate given the company would be producing only B-heavy ethanol, which would increase the output from the similar capacity
Distillery price (₹ per KL)	40,278	48,350	50,200	55,220	55,220	55,344	55,344	
Power Units sold	20.2	16.3	17.1	18.0	19.5	19.5	19.5	
Price per unit (₹ per units)	5.0	2.9	3.1	3.3	3.4	3.3	3.4	

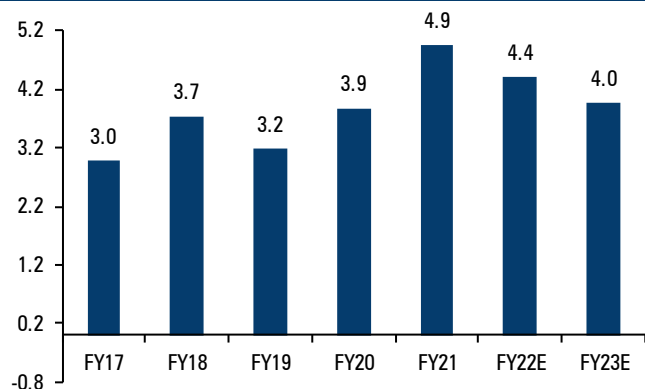
Source: Company, ICICI Direct Research

## Conference call Highlights

- Revenue increased 29.9% to ₹ 600 crore led by strong 25.6% growth in sugar & 100.5% growth in distillery segment. The strong sugar segment growth was led by higher sugar volumes mainly on account of higher exports during the quarter whereas distillery growth was led by higher offtake by OMCs & ramping up of ethanol production
- The company sold 1.52 lakh tonnes (lt) of sugar in Q4, which includes exports of ~0.8 lt. Domestic sugar quota was 0.8 lt but the company could only sell 0.72 lt due to muted sugar realisation. Sugar realisation was down 2.5% to ₹ 31.2/kg mainly due to peak crushing season & muted winter demand
- Distillery volumes grew 75.3% to ₹ 1.28 crore litre. The ramping up of B-heavy production improved utilisation during the quarter. Distillery realisation improved 13.6% to ₹ 57.6/litre as the company only produced & sold B-heavy ethanol in Q4
- Power sales were down 6.4% due to lower co-generation volumes. The company sold 7.67 crore units at a realisation of ₹ 3/unit in Q4. The company sold 17 crore units at an average realisation of ₹ 3.1/unit in FY21
- The company is holding 2.6 lt (35000 tonnes lower compared to March 2020) of sugar inventory at an average price of ₹ 29.65/kg. The management believes the company should get a monthly domestic quota of 30,000 tonnes
- With global sugar prices moving up, Indian industry would be looking to export under OGL without export subsidy if prices move beyond 19-20 cents/lb
- The company has completed crushing in one of its plant for the sugar season 2020-21. It would be finishing crushing in the rest of the two plants by May 20, 2021. Like to like sugar recoveries are likely to be down by 10-15 bps
- DWL sacrificed 34,000 tonnes of sugar during the season by diverting sugarcane towards B-heavy ethanol. With the company diverting its entire sugarcane towards B-heavy, the sugar sacrifice in the next season would be even higher
- The company is looking to manufacture 5.5 crore litre of ethanol in sugar season 2021-22. In FY22E, it would sell 5 crore litre of ethanol
- The company is evaluating capacity expansion of 175 KLD, which could run on sugarcane juice & B-heavy ethanol. This could require ₹ 220-240 crore of capex. The distillery can be commissioned within one year of announcement. The delay in capex plan is mainly due to second wave of pandemic
- Sugar demand has not been significantly impacted due to second wave of Covid-19. However, sugar prices have cooled-off from ₹ 34/kg in April to ₹ 33/kg in May
- Interest cost has increased in FY21 despite repayment of debt as the company was holding high inventory for the major part of the year. Moreover, the government discontinued buffer subsidy in August 2020
- The company paid a dividend of ₹ 1.25/share in FY21

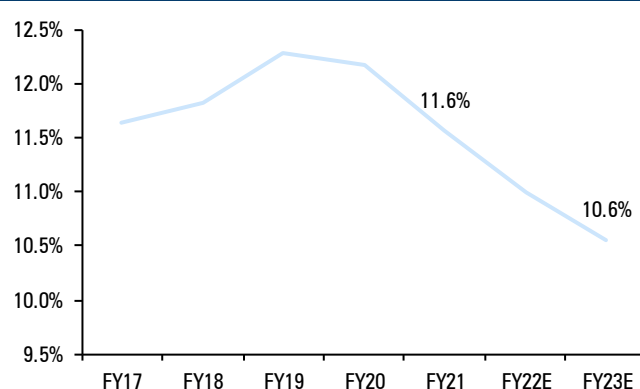
## Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



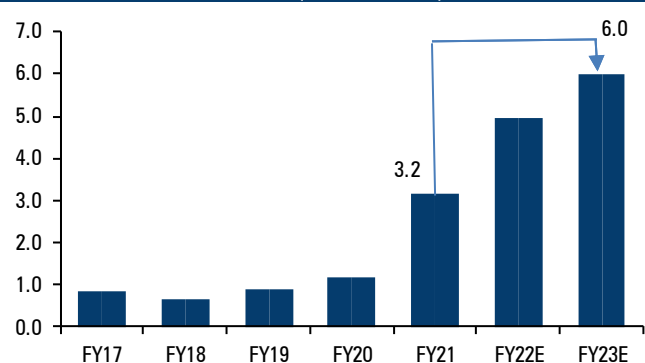
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



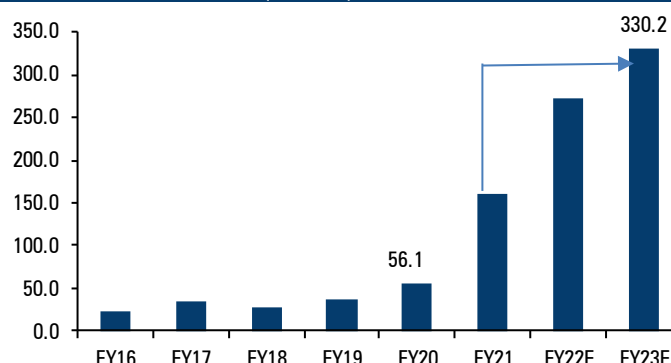
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



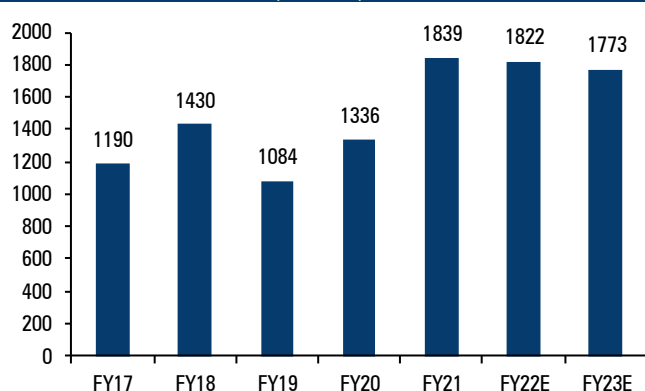
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



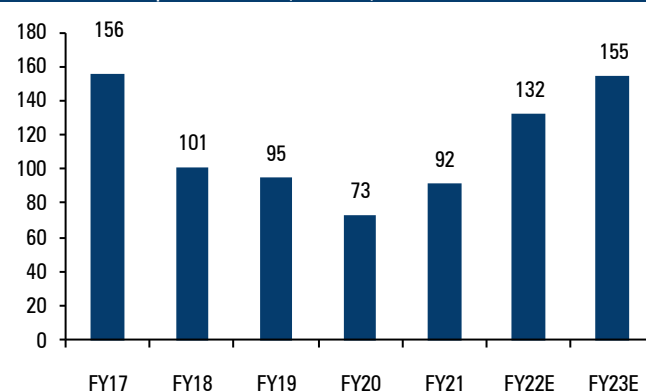
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	1336.2	23.3	3.9	-22.7	13.1	11.7	15.2	9.0
FY21	1838.9	37.6	4.9	24.5	10.5	7.5	15.8	14.4
FY22E	1821.7	-0.9	7.0	44.7	7.3	5.7	19.2	18.0
FY23E	1773.4	-2.6	8.2	16.8	6.2	5.0	19.0	18.2

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
<b>Total Operating Income</b>	<b>1,336.2</b>	<b>1,838.9</b>	<b>1,821.7</b>	<b>1,773.4</b>
Growth (%)	23.3	37.6	-0.9	-2.6
Raw Material Expenses	1,029.3	1,431.1	1,390.6	1,307.8
Employee Expenses	78.8	92.7	99.3	104.6
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	92.0	113.8	96.5	94.0
Total Operating Expenditure	1,200.1	1,637.6	1,586.4	1,506.4
<b>EBITDA</b>	<b>136.1</b>	<b>201.3</b>	<b>235.2</b>	<b>267.1</b>
Growth (%)	5.5	47.9	16.9	13.5
Depreciation	36.9	40.9	40.5	47.7
Interest	33.0	47.7	28.6	25.0
Other Income	5.4	7.1	8.1	9.1
PBT	66.2	112.7	166.1	194.4
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	-1.9	28.3	41.8	48.8
<b>PAT</b>	<b>73.5</b>	<b>91.5</b>	<b>132.4</b>	<b>154.6</b>
Growth (%)	-22.7	24.5	44.7	16.8
EPS (₹)	3.9	4.9	7.0	8.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/Loss after Tax	57.2	119.8	132.4	154.6
Add: Depreciation	36.9	40.9	40.5	47.7
Add: Interest	33.0	47.7	0.0	0.0
(Inc)/dec in Current Assets	-145.0	108.1	134.0	10.2
Inc/(dec) in Current Liabilities	29.3	-15.0	-20.4	-14.3
<b>CF from operating activities</b>	<b>11.3</b>	<b>295.6</b>	<b>286.5</b>	<b>198.2</b>
(Inc)/dec in Investments	0.4	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-111.9	-19.5	-80.0	-180.0
Others	-7.4	1.9	1.0	0.0
<b>CF from investing activities</b>	<b>-119.0</b>	<b>-17.6</b>	<b>-79.0</b>	<b>-180.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	185.5	-236.1	-140.0	0.0
Dividend paid & dividend tax	-45.4	-43.4	-23.5	-28.2
Inc/(dec) in Sec. premium	0.0	-0.3	1.5	0.0
Others	-31.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>109.1</b>	<b>-279.8</b>	<b>-162.1</b>	<b>-28.2</b>
Net Cash flow	1.4	-1.8	45.5	-10.1
Opening Cash	0.5	1.9	0.1	45.6
Cash with bank	1.2	1.0	0.0	0.0
<b>Closing Cash</b>	<b>3.1</b>	<b>1.2</b>	<b>45.6</b>	<b>35.6</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	18.8	18.8	18.8	18.8
Reserve and Surplus	464.9	560.1	670.4	796.8
Total Shareholders funds	483.7	578.9	689.3	815.7
Total Debt	654.4	556.8	416.8	416.8
Long Term Provisions	19.0	21.8	19.8	17.8
Other Non-current Liabilities	6.2	2.2	2.2	2.2
<b>Total Liabilities</b>	<b>1,163.4</b>	<b>1,159.7</b>	<b>1,128.1</b>	<b>1,252.5</b>
<b>Assets</b>				
Gross Block	911.0	931.5	1,011.5	1,191.5
Less: Acc Depreciation	480.6	521.5	562.0	609.6
Net Block	430.3	409.9	449.5	581.8
Capital WIP	1.9	0.5	0.5	0.5
Intangible assets	0.0	0.0	0.0	0.0
Non Current Investments	0.3	0.1	0.1	0.1
Other non-current assets	77.7	53.2	53.2	53.2
<b>Current Assets</b>				
Inventory	912.5	855.3	708.4	679.8
Debtors	98.0	67.9	60.7	59.1
Cash	3.1	1.2	45.6	35.6
Loans & Advances	0.1	0.1	0.1	0.1
Other Current Assets	85.4	57.2	77.2	97.2
<b>Current Liabilities</b>				
Creditors	209.9	187.2	168.8	156.4
Provisions	2.9	3.8	3.8	3.8
Other CL	233.2	94.7	94.7	94.7
Net Current Assets	653.1	696.0	624.8	616.9
<b>Total Assets</b>	<b>1,163.4</b>	<b>1,159.7</b>	<b>1,128.1</b>	<b>1,252.5</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	3.9	4.9	7.0	8.2
Cash EPS	5.9	7.0	9.2	10.7
BV	25.7	30.7	36.6	43.3
DPS	2.4	0.0	1.3	1.5
Cash Per Share	25.5	27.7	29.8	32.4
<b>Operating Ratios (%)</b>				
EBITDA Margin	10.2	10.9	12.9	15.1
PBT / Net Sales	5.4	6.5	9.6	11.5
PAT Margin	5.5	5.0	7.3	8.7
Inventory days	249.3	169.8	141.9	139.9
Debtor days	26.8	13.5	12.2	12.2
Creditor days	57.3	37.2	33.8	32.2
<b>Return Ratios (%)</b>				
RoE	15.2	15.8	19.2	19.0
RoCE	9.0	14.4	18.0	18.2
<b>Valuation Ratios (x)</b>				
P/E	13.1	10.5	7.3	6.2
EV / EBITDA	11.7	7.5	5.7	5.0
EV / Net Sales	1.2	0.8	0.7	0.8
Market Cap / Sales	0.7	0.5	0.5	0.5
Price to Book Value	2.0	1.7	1.4	1.2
<b>Solvency Ratios</b>				
Debt/EBITDA	4.8	2.8	1.8	1.6
Debt / Equity	1.4	1.0	0.6	0.5
Current Ratio	4.9	4.9	4.6	4.9
Quick Ratio	0.8	0.6	0.8	0.9

Source: Company, ICICI Direct Research

**Exhibit 15: 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	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E
Balrampur Chini (BALCHI)	304	285	Buy	6,379	23.7	27.2	37.4	12.8	11.2	8.1	9.4	8.5	6.0	2.1	1.9	1.8	17.1	18.4	25.5
Dalmia Bharat Sugar (DALSUG)	295	225	Buy	2,433	38.2	36.7	44.2	7.7	8.0	6.7	5.4	5.4	4.4	1.0	0.9	0.8	17.3	14.8	16.4
Triveni Engineering (TRIENG)	145	125	Buy	3,485	15.2	17.1	21.2	9.6	8.5	6.9	6.0	5.7	4.7	1.7	1.5	1.2	20.7	20.5	23.3
Dhampur Sugar (DHASUG)	305	260	Buy	2,015	34.4	43.4	51.3	8.9	7.0	5.9	5.2	4.4	3.6	0.9	0.8	0.7	14.8	16.4	18.0
Dwarikesh sugar (DWASUG)	51	62	Buy	962	4.9	7.0	8.2	10.5	7.3	6.2	7.5	5.7	5.0	1.7	1.4	1.2	14.4	18.0	18.2
Avadh Sugar (AVASUG)	306	210	Hold	613	51.1	59.7	72.0	6.0	5.1	4.3	7.1	5.8	4.5	0.7	0.6	0.5	11.0	12.5	14.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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