

March 22, 2021

Sugarcane turning into prominent energy crop...

We initiated coverage on the sugar sector with our *'August 2019 sector report'* on the premise of rationalising sugar inventory levels in the country and possibility of significant sugarcane diversion toward producing ethanol. Our view is materialising given sugar inventory levels are coming down from the peak of 14.5 million tonnes (MT) in September 2019 to ~8 MT in September 2021. Further, in the current sugar season, the industry would be diverting (sacrificing) 2 MT of sugar for ethanol production. With the government's aggressive stance on increasing ethanol blending with petrol to levels of 20% by 2025, the industry is undertaking huge capacity expansion programmes to meet the ethanol requirement of 10 billion litre by 2025. We believe this distillery capacity addition to utilise the B-Heavy & sugarcane juice route to produce ethanol, would be earnings accretive after the significant increase in ethanol prices in last two years. Also, higher sugarcane diversion towards ethanol production would keep sugar inventory levels in check, significantly de-leveraging industry balance sheet.

Ethanol blending programme to rationalise sugar inventories

With the aggressive capacity addition by sugar companies in the next two to three years, the industry would be able to sacrifice 5-6 MT of sugar by 2025 to produce ~600 crore litre of ethanol. We believe the government's target of 10% ethanol blending by 2022 can be easily achieved with the commissioning of many distilleries between October 2021 and March 2022. Further, to achieve 20% ethanol blending programme, ~300-400 crore litre of ethanol is required to be produced through grain based distilleries. We believe this has also opened one more revenue stream for sugar companies given some of them are setting up grain based distilleries as well.

Domestic sugar prices to move northwards

Sugar inventory levels are expected to come down to ~8 MT by September 2021 with the aggressive exports & diversion towards ethanol. We believe the industry would be able to maintain sugar inventories at 6-8 MT in future with increasing sugarcane diversion towards ethanol. This would result in domestic sugar prices moving up to reasonable levels. We believe higher domestic prices would also improve the profitability of sugar companies, going forward.

Improving profitability; attractive multiples

Given sugar companies would be commissioning or completing capacity addition in the next two years, the industry should see considerable improvement in earnings trajectory. We are incorporating FY23E numbers for sugar companies under coverage. We expect sugar companies to be able to completely de-leverage their balance sheet (including working capital debt) in the next two years and generate sustainable cash flows, going forward. Sugar stocks are trading at attractive multiples. We believe a multiple re-rating is imminent.

Exhibit 1: Valuation matrix

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)		
	(₹)	(₹) Rating		(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Balrampur Chini (BALCHI)	204	285 Buy	4,284	23.7	27.2	37.4	8.6	7.5	5.5	7.5	6.7	4.6	1.6	1.5	1.3	17.1	18.4	25.5
Dalmia Bharat Sugar (DALSUG)	161	225 Buy	1,303	33.4	36.7	44.2	4.8	4.4	3.6	4.8	4.3	3.4	0.7	0.6	0.6	15.6	15.0	16.6
Triveni Engineering (TRIENG)	85	125 Buy	2,041	15.2	17.1	21.2	5.6	4.9	4.0	4.7	4.4	3.6	1.2	1.1	0.9	20.7	20.5	23.3
Dhampur Sugar (DHASUG)	184	260 Buy	1,223	38.1	44.3	52.6	4.8	4.2	3.5	5.0	3.9	3.2	0.8	0.7	0.6	14.9	16.9	18.6
Dwarikesh sugar (DWASUG)	32	36 Hold	595	5.4	7.0	8.2	5.9	4.5	3.9	4.6	3.7	3.3	1.1	0.9	0.8	17.6	20.5	20.3
Avadh Sugar (AVASUG)	190	210 Hold	380	51.1	59.7	72.0	3.7	3.2	2.6	6.6	5.4	4.1	0.6	0.5	0.4	11.0	12.5	14.3

Source: Company, ICICI Direct Research

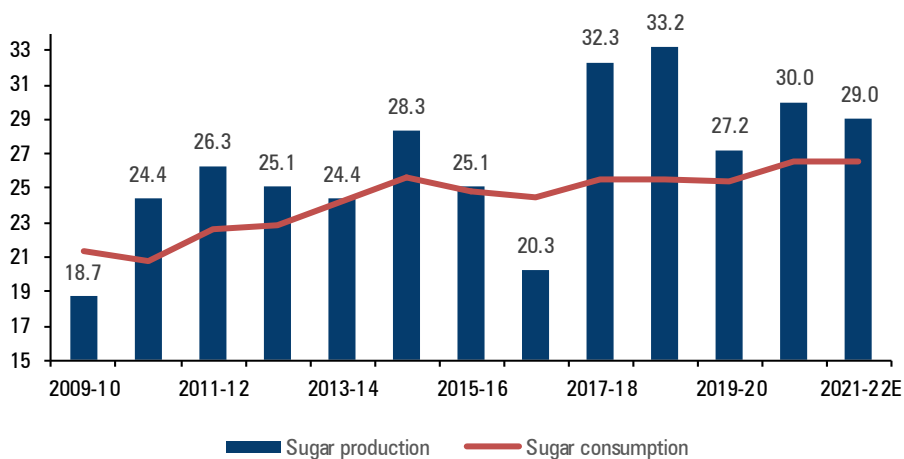
Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Sugar economy getting better

The sugar economy has improved significantly in the last two years with increase in sugar production aided by better sugarcane yield & sugar recoveries (prevalent use of sugarcane variety CO-0238). Further, implementation of minimal selling price (MSP) for sugar, export subsidy, diversion of sugarcane for ethanol production through B-heavy & sugarcane juice route have helped in rationalisation of inventory. We believe the industry would be able to sacrifice 5-6 MT (equivalent of sugar exports) of sugar for ethanol production in the next two to three years. This would help the industry to reduce sugar production to the level of sugar consumption in the country, which would keep sugar inventory at rational levels and, in turn, result in higher domestic sugar prices.

Exhibit 2: Sugar production & consumption in India (in million tonne)



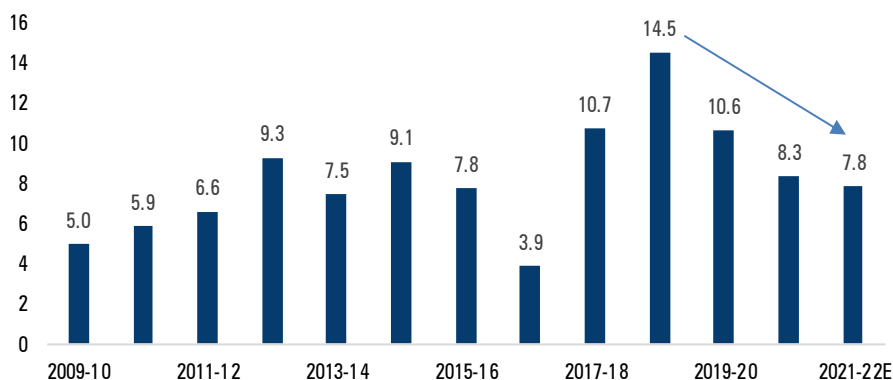
Sugar production in the current season is likely to be ~30 MT given 2 MT has been sacrificed for ethanol production either through B-heavy or sugarcane process

Source: Company, ICICI Direct Research

Sugar inventory shrinking to comfortable levels

With the surge in sugar production since 2018, sugar inventories peaked at 14.5 MT (~55% of total consumption) in September 2019. Given diversion of sugarcane towards ethanol production through B-heavy route & aggressive 6 MT of exports (government gave export subsidy of ₹ 10.4/kg for 2019-20 sugar season), this led to sugar inventories coming down to 10.5 MT in September 2020. Further, the government is incentivising sugar exports in the 2020-21 sugar season as well with ₹ 5.85/kg sugar export subsidy for 6 MT. We believe sugar inventories would come down to ~8.0 MT by September 2021 with aggressive exports and 2.0 MT sugar sacrifice for ethanol. Inventory levels at 7-8 MT would push sugar prices to more remunerative levels.

Exhibit 3: Sugar inventories rationalising to comfortable levels (in million tonne)



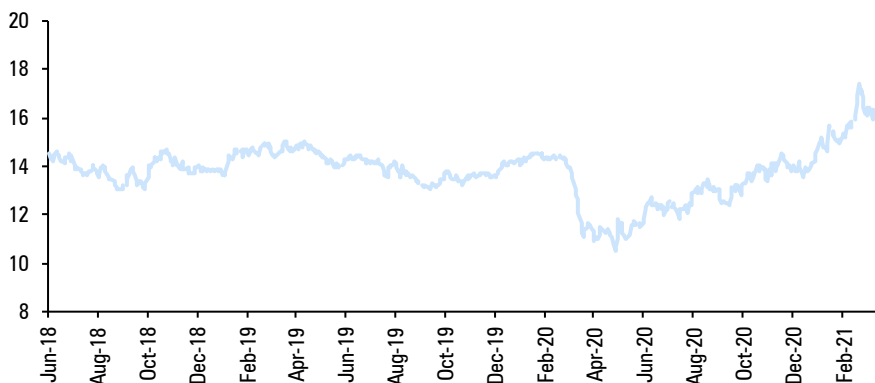
Sugar Inventories would come down to ~8 MT by September 2021 after 6 MT of exports & 26 MT of consumption

Source: Company, ICICI Direct Research

Surge in global prices helping export

Global sugar prices (raw sugar) have moved up from the lows of 10 cents/lb to 16.5 cents/lb in the last one year. The surge in these prices has been aided by lower sugar production in Thailand & EU. Further considerable increase in crude prices have increase the possibility of aggressive sugarcane diversion towards ethanol by Brazil in the upcoming sugar season. The surge in sugar prices at the right time resulted in India sugar companies getting contract for 4.3 MT (three-fourth of total 6 MT) of sugar within three months of announcement of sugar export subsidy. We believe the industry would be able to complete the export contracted by April-May 2021. Moreover, higher global prices have resulted in better sugar realisation for Maharashtra and Karnataka millers given their proximity to the port.

Exhibit 4: Global Sugar Prices (US cents / lb)



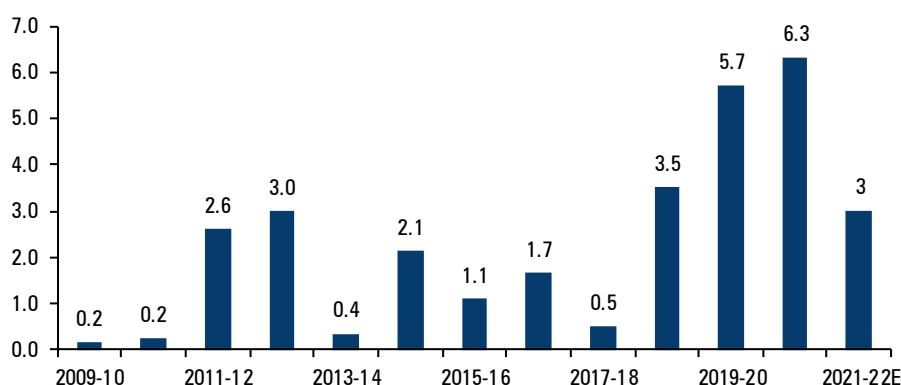
Source: Company, ICICI Direct Research

Global sugar prices have surged to above 16 cents / lb in last one year. This would help complete sugar export for the 2020-21 season

Domestic sugar prices to move northwards

The industry is likely to see 10% increase in sugar production to 30 MT in the 2020-21 season. Production in Maharashtra is likely to end at ~10 MT (4 MT increase from last year) mainly on account of higher sugarcane acreage. Similarly, production in UP is also likely to end at ~10 MT (2.7 MT lower from last year) impacted by lower sugarcane yield & lower sugar recovery. The sugarcane yield has been impacted by 'red rot' disease in some regions in UP. Further lower recoveries have been impacted by crushing of sugarcane, which was not fully mature given crushing season 2019-20 was extended with increase in sugarcane availability (given 'Gur' & 'Khandsari' units were closed early due to Covid-19). We believe the sugar industry would be able to export 6 MT of sugar and would be able to sacrifice 2 MT of sugar for ethanol in the 2020-21 season. This would result in bringing inventory levels down to 7-8 MT. We believe stable sugar inventories would push domestic sugar prices to ~₹ 34/kg, which would keep the sugar segment profitable.

Exhibit 5: Aggressive sugar exports in last two seasons has helped bring down inventories (in million tonne)



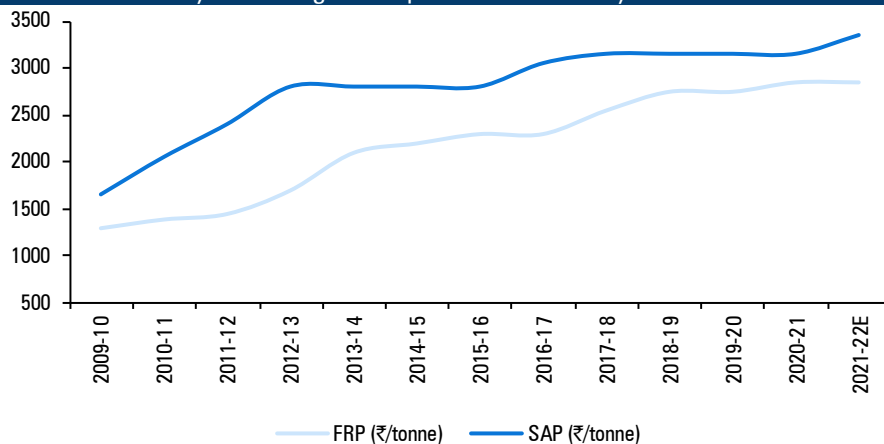
Source: Company, ICICI Direct Research

The industry would be able to successfully export 12 MT between September 2019 and September 2021. Moreover, the government can still continue sugar subsidy for exports until 2023. This would ensure that inventories would not build up till the industry is able to build sufficient distillery capacity for ethanol production

Stable SAP prices bring relief

The central government has increased the fair & remunerative prices (FRP) for sugarcane for the 2020-21 season by ₹ 10/quintal to ₹ 285/quintal (at 10% sugar recovery). However, State Advised Price (SAP) for sugarcane in UP has been kept at ₹ 315/quintal for the season. We believe sugarcane prices in UP can increase by 5-6% in the next sugar season given stable prices for three consecutive years and state elections due in February 2022. We believe rationalisation of sugar inventories and increase in ethanol sales would help the industry to absorb the increase in sugarcane prices next year. Sugarcane has remained one of the most remunerative agri crops in the country fetching ~70-80% more income compared to wheat & paddy.

Exhibit 6: Relatively stable sugarcane prices in last three years



Sugarcane prices have remained stable over the last three years. However, we expect a 6% increase in sugarcane prices in the next season given UP elections are due in March 2022

Source: Company, ICICI Direct Research

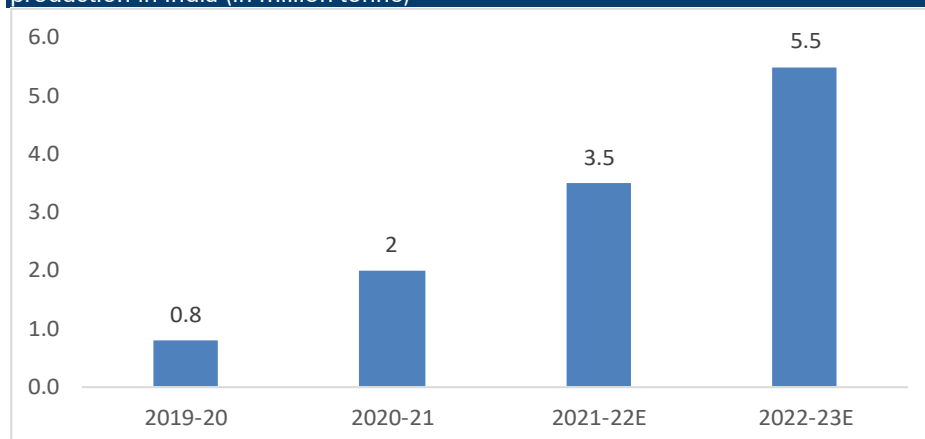
Ethanol economy moving at fast pace

Though the ethanol blending programme started way back in 2003, it has only gained pace from 2018 onwards. The lack of availability of feedstock, lower ethanol production capacity and no clarity on ethanol prices has delayed the targeted 10% ethanol blending by a decade. However, from 2018 onwards, the government has taken various decisions to promote ethanol blending. These are:

- The government allowed ethanol production through B-heavy & sugarcane juice route
- The separate pricing for C-heavy, B-heavy & Sugar Juice ethanol was declared to encourage higher ethanol production by sacrificing sugar partially or fully
- Interest subvention up to 50% for any ethanol capacity addition or capex related to insinuation boilers

The industry has been able to achieve 5% overall blending in 2019-20 and has got contract for 289 crore litre of ethanol supply from OMCs for 2020-21. This would result in ~7% ethanol blending with petrol in the current year. Given ~289 crore ethanol production, ethanol economy accounts for ₹ 17000 crore. The government is planning 10% ethanol blending by 2022 and 20% blending by 2025. This would require 1000 crore litre of ethanol by 2025. We believe the ethanol economy would grow to ₹ 60,000 crore by 2025. Moreover, total distillery sales (ethanol, ENA, rectified spirit) would account for ~₹ 90,000 crore by 2025.

Exhibit 7: Sugar sacrifice arising due to sugarcane diversion towards ethanol production in India (in million tonne)



Source: Company, ICICI Direct Research

The industry would be able to sacrifice 5-6 MT of sugar by diverting sugarcane towards ethanol production in the next two to three years

Industry undertaking aggressive capex

Interest subvention on capacity expansion for distillery has propelled the industry to aggressively increase distillery capacities, which would be utilised for production of B-heavy, sugarcane juice & grain based ethanol. The government expect distillery projects worth ₹ 40,000 crore to be commissioned in the next four to five years, which would increase distillery capacity in the country to ~1600 crore litre. Out of this 1000 crore litre would be required by OMCs as ethanol & rest would be utilised to produce extra neutral alcohol (ENA) and rectified spirit for the liquor & chemicals industry.

Direct juice ethanol is remunerative

The government increased ethanol prices in October 2020 mainly to encourage higher ethanol production. It has increase C-Heavy ethanol prices by 4.4% to ₹ 45.7/litre. Moreover, B-heavy & sugarcane juice ethanol prices have increased by 6.2% to ₹ 57.6/litre & 5.3% to ₹ 62.7/litre, respectively. With this increase, ethanol produced from sugarcane juice is more remunerative than B-heavy or C-heavy ethanol (considering sugar prices at ₹ 32/kg). This has resulted in many sugar mills announcing capacity addition for the distillery segment. India produces ~6 MT of excess sugar every year compared to its consumption. Currently, this excess is exported with the help of government subsidy. The industry is require to sacrifice this 6 MT of sugar for ethanol production to maintain demand-supply equation. We believe aggressive capacity addition by most millers would result in ~3.5 MT of sugar diversion in 2021-22 & ~5.5 MT of sugar diversion in 2022-23.

Exhibit 8: Increase in B-heavy & sugarcane juice ethanol changes dynamics

	C Molasses	B Molasses	Sugarcane Juice
1 tonne of sugarcane crushed			
Sugar (kg)	120	105	0
Current Sugar Prices	32	32	32
Sugar Sales (₹)	3840	3360	0
Ethanol (in litres)	11	20	85
Current Ethanol Prices	45.7	57.6	62.7
Ethanol sales (₹)	503	1152	5325
Total Sales (₹)	4343	4512	5325

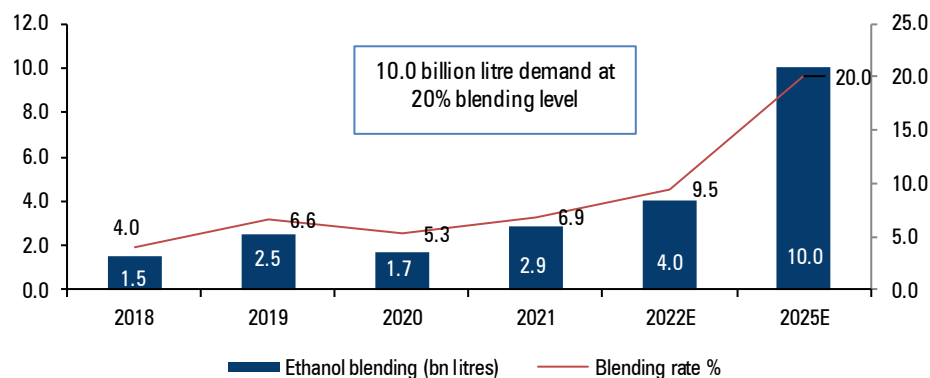
Source: Company, ICICI Direct Research

The government has increased the B-Heavy & sugarcane juice ethanol prices by ₹ 3/litre. This would encourage millers to divert sugarcane towards ethanol production

Ethanol blending at 20% by 2025 possible

The government is targeting 10% ethanol blending by 2022 & 20% ethanol blending by 2025 (advanced from 2030). To achieve these targets, OMCs would require 430 crore litre of ethanol supply by 2022 & 1000 crore litre of ethanol supply by 2030. We believe this target is achievable after the considerable increase in B-heavy & sugarcane juice ethanol prices in the current year. Moreover, the industry is undertaking significant capacity addition to achieve this target.

Exhibit 9: Ethanol blending requirement for 10% & 20% ethanol blending



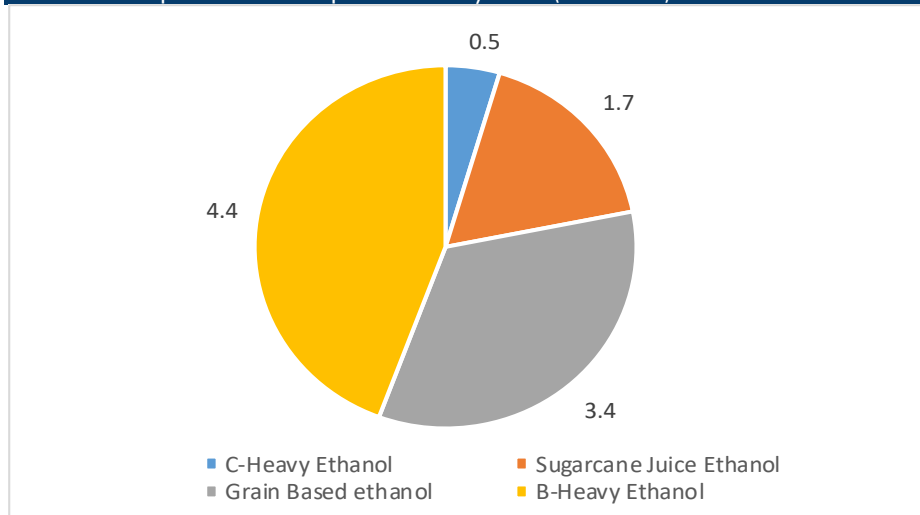
OMCs would require 4 billion litre of ethanol by 2022 & 10 billion litre of ethanol by 2025 to meet the demand of 10% & 20%, respectively

Source: Company, ICICI Direct Research

Grain based ethanol to add another revenue stream

The government is targeting 20% ethanol blending by 2025, which would require 1000 crore litre of ethanol. We believe diversion from sugarcane juice & B-heavy ethanol would only suffice for ~600-700 crore litre & rest 300-400 crore litre of ethanol would be produced through grains. The grain based ethanol would add one more revenue stream for the industry and contribute to the revenue & profitability. We believe sugar companies would produce ~65-70% of ethanol from B-heavy molasses. Moreover, 25-30% of ethanol is likely to be produced from sugarcane juice. Also, 5-10% of distillery volumes would comprise ENA for mandatory procurement by the UP based country liquor companies. Many sugar companies are planning to set up grain based distilleries to tap the opportunity arising out of increase in ethanol blending levels.

Exhibit 10: Expected ethanol production by 2025 (in bn litre)



Out of the 10 billion litre of ethanol production, 600-700 crore litre would be produce from C-heavy, B-heavy & sugarcane juice processes & the 300-400 crore litre would be required from grain based ethanol

Source: Company, ICICI Direct Research

Industry dynamics

With sugar inventories getting rationalised, demand-supply balance evening out & considerable increase in ethanol sales, the sugar industry is going to witness strong earnings growth in the next three to four years. We believe distillery revenues would contribute as much as 25% of the total sales for sugar companies. Further, lower sugar inventories would push sugar prices northwards. Both these factors would contribute to the earnings growth.

Industry level balance sheet de-leveraging

Most sugar companies have seen de-leveraging of balance sheet with significant reduction in sugar inventories. We believe the entire 6 MT of exports in 2020-21 and increasing ethanol sales would further reduce working capital requirement of sugar companies. Moreover, capex related low cost debt would be utilised for working capital. This would reduce the interest cost for most sugar millers, to a great extent.

Multiple re-rating on the cards

Despite sugar companies earnings likely to grow at a stable pace rather than usual cyclical ups & downs, sugar stocks are still trading at abysmal single digit earnings multiple. We believe huge growth opportunity in ethanol would result in structural earnings for the industry. Moreover, complete de-leveraging of balance sheet gives us comfort. We believe sugar stocks would remain a strong investment catalyst while a re-rating of sugar companies is imminent.

Best in the business...

Balrampur Chini (BCML) is expanding its distillery capacity by 320 kilo litre per day (KLD) to produce ethanol from sugarcane juice & grains. This would take its total distillery capacity to 840 KLD by November 2022. The company would be able to sell ~28-30 crore litre of ethanol or ENA per annum. After the full expansion of distillery capacity, BCML would be able to sell its entire sugar inventory within 12 months without depending on exports. This would significantly improve cash flows given lower inventory levels.

Domestic sugar prices to move northwards

Sugar inventory in the country is likely to come down to ~8 million tonnes (MT) by September 2021 mainly on account of 2 MT of sugar sacrifice for ethanol & 6 MT of exports. Moreover, with the additional distillery capacities to be commissioned from November 2021 onward, we believe the industry would be able to sacrifice ~3.5 MT of sugar for ethanol production in 2021-22 sugar season. This would reduce the dependency on exports. The government would discontinue any subsidy on sugar exports by 2023 (according to WTO mandate). We believe 5.5 MT of sugar sacrifice for ethanol production would replace exports in the next two to three years. This would move up domestic sugar prices to more rational levels and improve the earnings trajectory of sugar companies.

Distillery volumes to drive earnings

We expect distillery volumes of 17.2 crore litre in FY22E & 23 crore litre in FY23E. Distillery revenue is expected to grow at a CAGR of 32.3% to ₹ 1263 crore. With the expansion of 320 KLD capacity, the company would be able to produce ~5 crore litre of ethanol through grain given the abundance availability of broken rice in the region. Given the huge opportunity in ethanol industry, we believe the company can even further increase its grain based distillery capacity in future. We expect revenue & earnings CAGR of 3.9% & 11.0%, respectively, during FY20-23E.

Valuation & Outlook

BCML is the biggest and one of the most efficient sugar companies in India. The capacity expansion in the distillery segment would result in strong earnings growth & stable cash flow generation. This would result in complete de-leveraging of balance sheet including working capital debt in the next three years. We estimate operating cash flow generation of ₹ 920 crore & ₹ 1104 crore in FY22E & FY23E, respectively. With the expansion of ethanol dynamics, the industry is out of the usual cyclicality in the sector. Considering, strong earnings growth & consistent cash flow generation, we expect the payout (dividend & buybacks) to increase from ~40% to ~60% in future. This translates into the payout yield of ~8%. We value the stock 1.7x FY23E price to book with a revised target price of ₹ 285/share (earlier ₹ 190). We maintain our **BUY** recommendation on the stock.



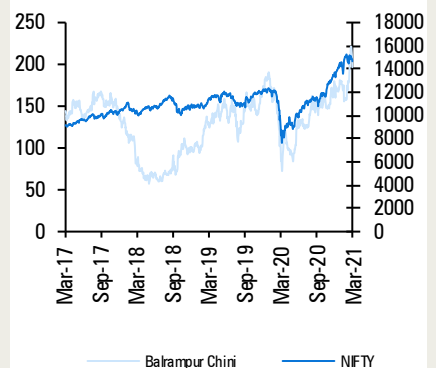
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	4,284.0
Total Debt (FY20)	1,399.0
Cash and Investments (FY20)	4.7
EV	5,678.3
52 week H/L (₹)	227 / 69
Equity capital	21.0
Face value (₹)	1.0

Key Risk

- Any derailment in ethanol blending programme could impact earnings, going forward
- Given 2022 is an election year, any irrational increase in sugarcane prices could impact cash flows

Price Performance



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	4285.8	4741.3	4920.6	4675.4	5323.6	3.9%
EBITDA	689.1	682.0	713.7	744.0	960.6	12.1%
EBITDA Margin %	16.1	14.4	14.5	15.9	18.0	
Net Profit	575.8	519.4	498.5	543.6	710.8	11.0%
Adjusted PAT	1.5	519.4	498.5	543.6	710.8	11.0%
EPS (₹)	25.2	23.6	23.7	27.2	37.4	16.6%
P/E	8.1	8.6	8.6	7.5	5.5	
RoNW %	27.2	21.5	18.6	18.8	22.1	
RoCE (%)	16.26	16.12	17.08	18.41	25.54	

Introducing FY23E numbers

We are introducing FY23E numbers for BCML. Considering 320 KLD distillery capacity is likely to be commissioned by November 2022, the company would be able to produce 23 crore litre of ethanol/ENA. The increase in distillery capacity would significantly improve the profitability. We estimate revenue & earnings of ₹ 5324 crore & 711 crore respectively for FY23E.

Exhibit 11: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% change	Old	New	% change	New	
Net sales	4920.6	4920.6	0.0	4,718.8	4,675.4	-0.9	5,323.6	We are introducing FY23E numbers
EBITDA	713.7	713.7	0.0	835.3	744.0	-10.9	960.6	We expect 6% increase in sugarcane prices given SAP prices in UP have not increased in last three years. Hence, we are changing our earnings estimate for FY22E
EBITDA Margin (%)	14.5	14.5	0 bps	17.7	15.9	-179 bps	18.0	
PAT	498.5	498.5	0.0	595.8	543.6	-8.8	710.8	We believe expected commissioning of new distillery in H2FY23E would significantly improve the profitability for FY23E
EPS (₹)	23.7	23.7	0.0	29.8	27.2	-8.8	37.4	

Source: Company, ICICI Direct Research

Exhibit 12: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Sugar Sold (in tonne)	1,153,000	1,205,300	1,168,200	1,020,000	1,092,000	1,168,200	1,020,000	
Sugar Price (₹ per tonne)	29,553	30,341	32,500	33,500	34,000	32,500	34,000	We are changing our sugar prices marginally downwards
Distillery volume	110,890	119,320	162,500	171,600	231,000	162,500	177,320	Distillery volumes would be impacted by lower availability of molasses with the lower sugarcane yields & dip in sugar recoveries
Distillery price (₹ per KL)	41,290	45,701	51,226	55,067	55,174	51,226	53,787	We are changing our distillery realisation downwards given higher proportion of B-heavy ethanol
Power Units sold	66.4	52.6	53.7	53.7	56.8	53.7	53.7	
Price per unit (₹ per units)	4.9	3.1	3.2	3.3	3.4	3.2	3.3	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	4,741.3	4,920.6	4,675.4	5,323.6
Growth (%)	10.6	3.8	-5.0	13.9
Raw Material Expenses	3,501.5	3,648.5	3,433.1	3,806.4
Employee Expenses	254.0	273.1	278.5	306.4
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	303.8	285.4	219.7	250.2
Total Operating Expenditure	4,059.3	4,206.9	3,931.4	4,363.0
EBITDA	682.0	713.7	744.0	960.6
Growth (%)	-1.0	4.7	4.2	29.1
Depreciation	101.4	106.5	115.7	121.2
Interest	64.2	46.4	37.2	10.6
Other Income	43.9	56.2	56.2	50.6
PBT	516.4	560.8	591.1	828.7
Total Tax	48.7	141.9	142.4	211.0
PAT	519.4	498.5	543.6	710.8
Adjusted PAT	519.4	498.5	543.6	710.8
Growth (%)	-9.8	-4.0	9.0	30.8
Adjusted EPS (₹)	23.6	23.7	27.2	37.4

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	560.3	498.5	543.6	710.8
Add: Depreciation	101.4	106.5	115.7	121.2
Add: Interest	64.2	0.0	0.0	0.0
(Inc)/dec in Current Assets	117.1	140.6	296.4	210.9
Inc/(dec) in Current Liabilities	121.1	7.6	-35.8	61.0
CF from operating activities	849.6	753.2	919.9	1,103.9
(Inc)/dec in Investments	-68.8	-30.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-241.9	-200.0	-200.0	-120.0
Others	6.0	3.2	0.0	0.0
CF from investing activities	-304.7	-226.8	-225.0	-145.0
Issue/(Buy back) of Equity	-149.3	-180.0	-250.0	-280.0
Inc/(dec) in loan funds	-265.8	-253.4	-380.0	-550.6
Dividend paid & dividend tax	-66.3	-52.5	-80.0	-114.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-64.1	0.0	0.0	0.0
CF from financing activities	-545.5	-485.8	-710.0	-944.6
Net Cash flow	-0.6	40.6	-15.1	14.3
Opening Cash	2.1	1.5	42.1	27.0
Cash change due to asset held for sa	0.0	0.0	0.0	0.0
Cash with bank	3.2	0.0	0.0	0.0
Closing Cash	4.7	42.1	27.0	41.3

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	22.0	21.0	20.0	19.0
Reserve and Surplus	2,393.7	2,660.8	2,875.3	3,193.1
Total Shareholders funds	2,415.7	2,681.8	2,895.3	3,212.1
Total Debt	1,399.0	1,145.6	765.6	215.0
Long Term Provisions	6.7	4.7	4.7	4.7
Other Non-current Liabilities	52.5	53.5	54.5	55.5
Total Liabilities	3,873.9	3,885.6	3,720.1	3,487.3
Assets				
Gross Block	2,115.5	2,315.5	2,515.5	2,635.5
Less: Acc Depreciation	492.3	598.9	714.6	835.8
Net Block	1,623.2	1,716.7	1,800.9	1,799.7
Capital WIP	12.4	12.4	12.4	12.4
Intangible assets	0.9	0.9	0.9	0.9
Non Current Investments	238.7	268.7	293.7	318.7
Other non-current assets	15.3	15.3	15.3	15.3
Current Assets				
Inventory	2,295.0	2,159.6	1,883.1	1,656.2
Debtors	244.9	259.7	259.7	295.8
Cash	4.7	42.1	27.0	41.3
Loans & Advances	0.0	0.0	0.0	0.0
Other Current Assets	371.8	351.8	331.8	311.8
Current Liabilities				
Creditors	678.0	657.5	589.1	616.9
Provisions	20.2	20.2	20.2	20.2
Other CL	234.8	263.8	295.5	327.7
Net Current Assets	1,983.4	1,871.6	1,596.9	1,340.3
Total Assets	3,873.9	3,885.6	3,720.1	3,487.3

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	23.6	23.7	27.2	37.4
Cash EPS	28.2	28.8	33.0	43.8
BV	109.8	127.7	144.8	169.1
DPS	3.0	2.5	4.0	6.0
Cash Per Share	22.4	28.5	35.7	44.0
Operating Ratios (%)				
EBITDA Margin	14.4	14.5	15.9	18.0
PBT / Net Sales	11.8	12.5	13.8	16.5
PAT Margin	11.0	10.1	11.6	13.4
Inventory days	176.7	160.2	147.0	113.6
Debtor days	18.9	19.3	20.3	20.3
Creditor days	52.2	48.8	46.0	42.3
Return Ratios (%)				
RoE	21.5	18.6	18.8	22.1
RoCE	16.1	17.1	18.4	25.5
Valuation Ratios (x)				
P/E	8.6	8.6	7.5	5.5
EV / EBITDA	8.3	7.5	6.7	4.6
EV / Net Sales	1.2	1.1	1.1	0.8
Market Cap / Sales	0.9	0.9	0.9	0.8
Price to Book Value	1.8	1.6	1.5	1.3
Solvency Ratios				
Debt/EBITDA	2.1	1.6	1.0	0.2
Debt / Equity	0.6	0.4	0.3	0.1
Current Ratio	3.8	3.9	3.6	3.2
Quick Ratio	0.8	0.9	0.9	0.8

Source: Company, ICICI Direct Research

Doubling distillery capacity to boost earnings...

Dalmia Bharat Sugar is the only sugar company in India, which has a presence in both major sugar producing state of UP and Maharashtra. The company has 35500 Tonnes Crushed per Day (TCD) capacity & 240 KLD distillery capacity. It produces ~6 lakh tonnes of sugar & 8 crore litre of ethanol/ENA. Dalmia is increasing its crushing capacity by 5000 TCD and distillery capacity by 7 crore litre. After this capacity addition, its crushing & distillery capacity would increase to 40,000 TCD & 15 crore litre pa, respectively. The company would incur ₹ 412 crore on expansion. We believe the increase in capacity would lead to strong earnings growth

Surge in global prices to aid profitability

We believe Dalmia has benefited from current season's sugar exports given one of its plant is closer to port. The company was allocated 1.08 lakh tonnes of export quota for sugar 2020-21 season. However, under the schemes of exchanging domestic quota with exports, it would be able to export more than allocated quota. Further, we believe the company would have been able to export higher proportion of white sugar (domestic equivalent price of ₹ 35/kg inclusive of subsidy) rather than more prevalent raw sugar. This would considerably improve the sugar realisation for the company given domestic prices are prevailing at ~₹ 32/kg. Moreover, we also expect domestic sugar prices to improve in H1FY22E given inventories in the system would come down to ~8.0 million tonnes by September 2021 with 6 million tonnes (MT) of exports and 2 MT of sugar sacrifice for ethanol. The industry would be able to sacrifice ~3.5 MT & ~5.5 MT of sugar in 2021-22 & 2022-23 season, respectively. In turn, this would reduce the dependency on sugar exports and keep domestic prices at reasonable levels.

Distillery expansion makes a sustainable business model

With the increase in capacity addition, the company would be able to produce 15 crore litre of ethanol. We expect distillery volumes of 10.8 crore litre & 14.9 crore litre in FY22E & FY23E, respectively. We estimate distillery revenue CAGR of 41.6% to ₹ 839 crore. The strong revenue from the segment would aid profitability given increase in B-heavy & Sugarcane Juice based ethanol prices. We believe the company would be able to curb its sugar production at 5.5 lakh tonnes in future, which it would be able to sell within a year. This situation would keep sugar inventories at rational levels.

Valuation & Outlook

We expect the company to witness a revenue & earnings CAGR of 13.0% & 22.8%, respectively. Moreover, Dalmia would be able to generate strong sustainable cash flows. We expect operating cash flow of ₹ 331 crore & ₹ 355 crore, respectively. We expect debt reduction of ~₹ 570 crore between FY20-23E. We value the stock 5x FY23E earnings with a revised target price of ₹ 225 (earlier ₹ 200). We maintain our **BUY** recommendation on the stock.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	2018.5	2034.7	2788.1	2667.2	2932.8	13.0%
EBITDA	265.7	260.5	428.3	491.2	562.2	29.2%
EBITDA Margin %	13.2	12.8	15.4	18.4	19.2	
Net Profit	175.2	193.3	270.3	296.9	357.4	22.8%
EPS (₹)	21.64	23.88	33.39	36.68	44.16	22.8%
P/E	7.4	6.7	4.8	4.4	3.6	
RoNW %	11.4	9.0	15.1	14.6	15.2	
RoCE (%)	9.8	11.8	15.6	15.0	16.6	

Source: Company, ICICI Direct Research



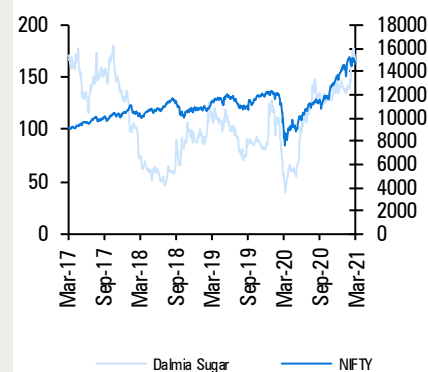
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,303.1
Total Debt (FY20)	1,192.6
Cash and Investments (FY20)	67.1
EV	2,428.6
52 week H/L (₹)	184 / 40
Equity capital	16.2
Face value (₹)	2.0

Key Risk

- Sugar consumption came down during lockdown in 2020. Another lockdown in future could impact sugar consumption
- Any delay in ethanol blending programme could impact distillery revenues & profitability

Price Performance



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Introducing FY23E numbers

We are introducing our FY23E numbers. The company is doubling its distillery capacity from 8 crore to 15 crore litre in the next two years. With this expansion, we estimate distillery volume of 10.8 crore & 14.9 crore litre in FY22E & FY23E, respectively. We expect 88% & 7% sugarcane diversion towards sugarcane juice & B-Heavy ethanol, respectively. This would significantly improve profitability given ~5-6% rise in overall ethanol prices. We estimate revenue & earnings of ₹ 2933 crore & ₹357 crore respectively for FY23E

Exhibit 17: Change in Estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% change	Old	New	% change	New	
Net sales	2651.9	2788.1	5.1	2,740.9	2,667.2	-2.7	2,932.8	We revise our revenue estimates slightly considering higher distillery volumes in FY22E & lower sugar volumes
EBITDA	355.3	428.3	20.5	370.7	491.2	32.5	562.2	We adjust our FY21 operating profit number after reducing subsidy number in other income & increasing export realisation. However, we expect a significant improvement in FY22E operating profit with higher distillery volumes on the back of expected commissioning of distillery capacities
EBITDA Margin (%)	13.4	15.4	196 bps	13.5	18.4	489 bps	19.2	
Adjusted PAT	273.7	270.3	-1.3	267.6	296.9	11.0	357.4	
EPS (₹)	33.8	33.4	-1.2	33.1	36.7	10.8	44.2	

Source: Company, ICICI Direct Research

Exhibit 18: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Sugar Sold (in tonne)	531,000	485,000	630,500	567,450	567,450	679,000	611,100	We estimate lower sugar volumes in FY22E with revisions in domestic quota & lower export possibility in next sugar season
Sugar Price (₹ per tonne)	30,680	32,342	30,500	33,500	33,500	33,000	34,000	We change our sugar realisation estimates for FY21E & FY22E given Q4FY21 realisation remains closer to MSP
Distillery volume	50,110	63,607	84,000	107,520	148,949	84,000	85,680	We change our distillery volumes estimate considerably given increase in distillery capacities in FY22E
Distillery price (₹ per KL)	42,850	46,408	52,262	54,600	56,325	51,262	53,289	Distillery realisation would also improve considering higher contribution of B-Heavy ethanol
Power Units sold	38.0	33.4	31.9	32.0	32.0	31.9	33.0	
Price per unit (₹ per units)	5.2	3.7	4.7	4.2	4.5	3.5	3.7	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 19: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	2,034.7	2,788.1	2,667.2	2,932.8
Growth (%)	0.8	37.0	-4.3	10.0
Raw Material Expenses	1,407.0	2,014.1	1,826.6	2,030.5
Employee Expenses	133.6	139.4	149.4	149.6
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	233.6	206.3	200.0	190.6
Total Operating Expenditure	1,774.2	2,359.8	2,176.0	2,370.7
EBITDA	260.5	428.3	491.2	562.2
Growth (%)	-2.0	64.4	14.7	14.5
Depreciation	57.2	61.0	66.9	69.9
Interest	88.4	62.6	53.5	41.2
Other Income	132.6	55.7	25.1	25.6
PBT	114.9	304.6	370.8	451.0
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	54.3	90.1	99.0	119.1
PAT	193.3	270.3	296.9	357.4
Growth (%)	10.3	39.9	9.9	20.4
EPS (₹)	23.9	33.4	36.7	44.2

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	247.5	270.3	296.9	357.4
Add: Depreciation	57.2	61.0	66.9	69.9
Add: Interest	88.4	0.0	0.0	0.0
(Inc)/dec in Current Assets	-226.7	139.2	-13.8	-30.6
Inc/(dec) in Current Liabilities	1.1	-21.7	-19.2	-42.3
CF from operating activities	72.4	448.8	330.8	354.5
(Inc)/dec in Investments	-96.8	-5.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-90.4	-85.0	-319.0	-119.0
Others	7.9	0.6	0.0	0.0
CF from investing activities	-179.3	-89.3	-324.0	-124.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	232.7	-410.0	40.0	-188.2
Dividend paid & dividend tax	-35.1	0.0	-48.6	-48.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-52.3	0.0	0.0	0.0
CF from financing activities	145.3	-410.0	-8.6	-236.8
Net Cash flow	38.4	-50.6	-1.7	-6.3
Opening Cash	28.0	66.5	15.9	14.2
Cash with bank	0.6	0.0	0.0	0.0
Closing Cash	67.1	15.9	14.2	7.9

Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	1,502.6	1,772.8	2,021.2	2,330.1
Total Shareholders funds	1,518.8	1,789.0	2,037.4	2,346.2
Total Debt	1,192.6	782.6	822.6	634.4
Long Term Provisions	29.4	27.4	25.4	23.4
Other Non-current Liabilities	117.7	118.7	119.7	120.7
Total Liabilities	2,858.5	2,717.8	3,005.1	3,124.8
Assets				
Gross Block	2,243.7	2,323.7	2,643.7	2,763.7
Less: Acc Depreciation	885.3	946.3	1,013.2	1,083.1
Net Block	1,352.4	1,377.4	1,630.5	1,680.6
Capital WIP	6.2	5.2	4.2	3.2
Intangible assets	0.4	0.4	0.4	0.4
Non Current Investments	100.3	105.3	110.3	115.3
Other non-current assets	48.5	48.5	48.5	48.5
Current Assets				
Inventory	1,329.2	1,123.0	1,111.3	1,099.8
Debtors	169.8	216.8	222.3	244.4
Cash	67.1	15.9	14.2	7.9
Loans & Advances	0.8	0.8	0.8	0.8
Other Current Assets	363.5	383.5	403.5	423.5
Current Liabilities				
Creditors	402.0	434.9	446.9	438.6
Provisions	5.6	5.6	5.6	5.6
Other CL	172.1	118.5	88.3	55.3
Net Current Assets	1,350.8	1,181.1	1,211.3	1,276.9
Total Assets	2,858.5	2,717.8	3,005.1	3,124.8

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	23.9	33.4	36.7	44.2
Cash EPS	30.9	40.9	44.9	52.8
BV	187.6	221.0	251.7	289.9
DPS	3.6	0.0	6.0	6.0
Cash Per Share	109.4	116.9	125.2	133.8
Operating Ratios (%)				
EBITDA Margin	12.8	15.4	18.4	19.2
PBT / Net Sales	0.1	0.1	0.1	0.2
PAT Margin	6.7	9.7	11.1	12.2
Inventory days	238.4	147.0	152.1	136.9
Debtor days	30.5	28.4	30.4	30.4
Creditor days	72.1	56.9	61.2	54.6
Return Ratios (%)				
RoE	9.0	15.1	14.6	15.2
RoCE	11.8	15.6	15.0	16.6
Valuation Ratios (x)				
P/E	6.7	4.8	4.4	3.6
EV / EBITDA	9.2	4.8	4.3	3.4
EV / Net Sales	1.2	0.7	0.8	0.7
Market Cap / Sales	0.6	0.5	0.5	0.4
Price to Book Value	0.9	0.7	0.6	0.6
Solvency Ratios				
Debt/EBITDA	4.6	1.8	1.7	1.1
Debt / Equity	0.8	0.4	0.4	0.3
Current Ratio	4.2	3.4	3.4	3.7
Quick Ratio	1.2	1.2	1.2	1.4

Source: Company, ICICI Direct Research

Distillery volumes to drive earnings growth...

Triveni Engineering (TEL) is increasing its distillery capacity by 200 KLD, which includes 160 KLD distillery (ethanol produced through B-heavy molasses/sugarcane juice) and 40 KLD grain based distillery. These two distilleries would be commissioned by January-February 2022 & TEL would be able to produce ~18 crore litre ethanol/ENA/annum. With this expansion, the company would be able to sacrifice ~15-18% of its sugar for ethanol production and generate ~₹ 900 crore of distillery revenue every year.

Least impacted by lower recoveries

In 2020-21 sugar season, UP based sugar mills have been impacted by lower sugarcane yield & dip in sugar recovery. However, TEL would be least impacted by this given most of its mills are in western UP. Further, the company fetches better sugar realisation given its ability to produce refined sugar. It would be able to export 1.8 lakh tonnes of sugar in current season and would be able to generate higher revenue through exports given global sugar prices have sharply increased in the last two months. We believe domestic sugar prices would inch up from April onwards in anticipation of sugar inventories coming down to ~8.0 MT by September 2021.

Distillery expansion to boost earnings

The company would be able to commission 200 KLD distillery (6.5 crore litre per annum) capacity by January-February 2022. We expect distillery volume to increase to 12.2 crore litre in FY22E & 17.2 crore litre in FY23E. We expect distillery revenue to grow at a CAGR of 34.4% to ₹ 939 crore by FY23E & contribute 20% to revenues. The sugarcane diversion towards ethanol would balance out sugar demand-supply gap, which would reduce TEL's dependency on exports and also result in higher domestic sugar prices. We estimate flat revenue growth in FY20-23E given higher sales from distillery would offset lower sugar exports revenue. However, distillery volumes would boost earnings given B-heavy & sugarcane juice ethanol realisation is equivalent to the sugar price of ₹ 36 & ₹ 39, respectively. We estimate earnings CAGR of 11.8% to ₹ 469 crore. Further, it would be generating sustainable cash flows, which would further de-leverage the balance sheet. We estimate ₹ 970 crore debt reduction during FY20-23E.

Valuation & Outlook

TEL is the third largest sugar company with ~60,000 TCD capacity. The expansion of sufficient distillery capacities in the country would help sugar companies in two ways: (1) sugar realisation would improve significantly, (2) strong revenue & earning contribution from distillery segment. We believe strong earnings growth & sustainable cash flow would improve shareholders payout (dividend, buybacks). We value the stock at 1.3x price to book with a revised target price of ₹ 125 (earlier ₹ 100). We maintain our **BUY** recommendation on the stock.



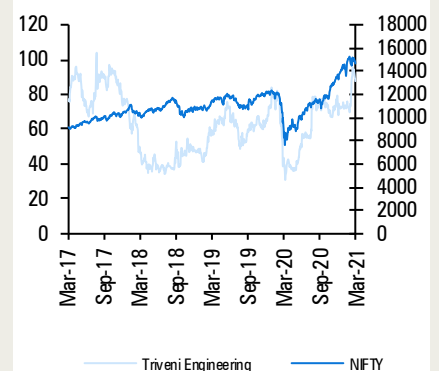
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	2,041.0
Total Debt (FY20)	1,558.2
Cash and Investments (FY20)	32.9
EV	3,566.4
52 week H/L (₹)	98 / 29
Equity capital	24.8
Face value (₹)	1.0

Key Risk

- Any derailment of 10% & 20% ethanol blending programme could impact earnings in future
- Any irrational increase in sugarcane prices could impact profitability

Price Performance



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	3151.7	4436.6	4404.3	4689.4	4460.5	0.2%
EBITDA	309.0	543.2	620.2	611.9	691.1	8.4%
EBITDA Margin %	9.8	12.2	14.1	13.0	15.5	
Net Profit	216.3	335.1	366.2	395.9	468.7	11.8%
EPS (₹)	8.39	13.52	15.17	17.11	21.17	16.1%
P/E	10.1	6.3	5.6	4.9	4.0	
RoNW %	19.0	19.9	22.4	21.8	22.6	
RoCE (%)	11.1	17.6	20.7	20.5	23.3	

Introducing FY23E numbers

We are introducing our FY23E numbers. We believe the company would be able to divert 5% of its sugarcane crushed towards the sugarcane Juice based Ethanol & ~75% of the sugarcane would be utilised for B-Heavy ethanol. TEL would be able to produce ~18 crore litre of ethanol after this capacity addition. We estimate ₹ 4461 crore of revenue & ₹ 469 crore of net profit in FY23E.

Exhibit 23: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% change	Old	New	% change	New	
Net sales	4449.6	4404.3	-1.0	4,682.3	4,689.4	0.2	4,460.5	We marginally change our revenue estimate for FY21E & FY22E
EBITDA	610.6	620.2	1.6	632.0	611.9	-3.2	691.1	We factor in ~6% increase in sugarcane prices in 2021-22 season
EBITDA Margin (%)	13.7	14.1	36 bps	13.5	13.0	-45 bps	15.5	
PAT	356.4	366.2	2.7	407.2	395.9	-2.8	468.7	
EPS (₹)	14.8	15.2	2.5	17.6	17.1	-2.8	21.2	

Source: Company, ICICI Direct Research

Exhibit 24: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Sugar Sold (in tonne)	759,067	1,069,545	1,027,140	1,026,089	852,478	1,027,140	1,026,089	
Sugar Price (₹ per tonne)	31,420	30,249	32,618	33,420	34,000	33,059	33,839	We changed our sugar realisation estimate slightly
Distillery volume	51,279	84,551	110,880	122,400	171,600	110,880	117,300	Distillery volumes increased due to expected commissioning of new distillery by Jan-Feb 2022
Distillery price (₹ per KL)	41,515	46,100	50,282	54,856	55,125	50,282	53,049	Distillery realisation would be higher considering higher proportion of B-Heavy ethanol
Power Units sold	17.5	14.5	16.1	15.5	17.5	16.1	15.5	
Price per unit (₹ per units)	5.2	3.1	3.2	3.3	3.3	3.2	3.3	
Gear/Gear box revenue	129.3	150.3	105.2	131.5	144.6	105.2	131.5	
Water segment revenue	231.4	289.1	245.7	299.8	329.8	245.7	299.8	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 25: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	4,436.6	4,404.3	4,689.4	4,460.5
Growth (%)	40.8	-0.7	6.5	-4.9
Raw Material Expenses	3,251.8	3,143.1	3,425.7	3,100.3
Employee Expenses	255.8	273.1	286.1	312.2
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Marketing expenses	0.0	0.0	0.0	0.0
Other expenses	385.9	367.9	365.8	356.8
Total Operating Expenditure	3,893.5	3,784.1	4,077.5	3,769.4
EBITDA	543.2	620.2	611.9	691.1
Growth (%)	75.8	14.2	-1.3	12.9
Depreciation	74.9	77.2	85.9	87.0
Interest	79.3	49.8	40.2	25.7
Other Income	36.3	29.0	29.6	26.6
PBT	389.0	493.2	485.8	578.4
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	110.5	172.3	136.6	154.3
PAT	335.1	366.2	395.9	468.7
Growth (%)	55.0	9.3	8.1	18.4
EPS (₹)	13.5	15.2	17.1	21.2

Source: Company, ICICI Direct Research

Exhibit 26: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	445.6	366.2	395.9	468.7
Add: Depreciation	74.9	77.2	85.9	87.0
Add: Interest	79.3	0.0	0.0	0.0
(Inc)/dec in Current Assets	-150.9	136.6	260.6	106.2
Inc/(dec) in Current Liabilities	82.2	148.2	-84.3	-38.6
CF from operating activities	510.3	495.6	703.8	489.1
(Inc)/dec in Investments	0.3	-4.8	-5.0	-5.0
(Inc)/dec in Fixed Assets	-116.9	-30.0	-250.0	-20.0
Others	9.4	0.8	0.0	0.0
CF from investing activities	-107.2	-34.0	-255.0	-25.0
Issue/(Buy back) of Equity	-101.3	-0.6	-1.0	-1.0
Inc/(dec) in loan funds	-167.8	-400.0	-230.0	-260.0
Dividend paid & dividend tax	-32.9	0.0	-115.7	-110.7
Inc/(dec) in Sec. premium	-6.5	-68.2	-100.0	-100.0
Others	-77.3	0.0	0.0	0.0
CF from financing activities	-385.7	-468.9	-446.7	-471.7
Net Cash flow	17.4	-7.3	2.1	-7.6
Opening Cash	14.6	32.0	24.7	26.9
Cash with bank	0.8	0.0	0.0	0.0
Closing Cash	32.9	24.7	26.9	19.3

Source: Company, ICICI Direct Research

Exhibit 27: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	24.8	24.1	23.1	22.1
Reserve and Surplus	1,313.9	1,611.8	1,792.0	2,050.0
Total Shareholders funds	1,338.7	1,636.0	1,815.2	2,072.2
Total Debt	1,387.0	987.0	757.0	497.0
Long Term Provisions	47.9	45.9	43.9	41.9
Other Non-current Liabilities	108.7	109.7	110.7	111.7
Total Liabilities	2882.3	2,778.6	2,726.8	2,722.8
Assets				
Gross Block	1,372.9	1,402.9	1,652.9	1,672.9
Less: Acc Depreciation	298.9	376.1	462.1	549.0
Net Block	1,073.9	1,026.8	1,190.8	1,123.8
Capital WIP	26.2	26.2	26.2	26.2
Intangible assets	0.9	0.9	0.9	0.9
Non Current Investments	153.3	158.3	163.3	168.3
Other non-current assets	60.6	60.4	60.4	60.4
Current Assets				
Inventory	1,912.1	1,798.4	1,498.0	1,387.7
Debtors	348.7	305.9	325.7	309.8
Cash	32.9	24.7	26.9	19.3
Loans & Advances	3.4	3.4	3.4	3.4
Other Current Assets	433.9	453.9	473.9	493.9
Current Liabilities				
Creditors	756.4	673.1	635.4	603.7
Provisions	31.8	31.8	31.8	31.8
Other CL	375.5	375.5	375.5	235.5
Net Current Assets	1567.3	1,506.0	1,285.1	1,343.1
Total Assets	2,882.3	2,778.6	2,726.8	2,722.8

Source: Company, ICICI Direct Research

Exhibit 28: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	13.5	15.2	17.1	21.2
Cash EPS	16.5	18.4	20.8	25.1
BV	54.0	67.8	78.4	93.6
DPS	3.1	0.0	5.0	5.0
Cash Per Share	12.1	15.6	20.0	24.8
Operating Ratios (%)				
EBITDA Margin	12.2	14.1	13.0	15.5
PBT / Net Sales	9.6	11.9	11.0	13.6
PAT Margin	6.0	8.3	8.4	10.5
Inventory days	157	149	117	114
Debtor days	29	25	25	25
Creditor days	62	56	49	49
Return Ratios (%)				
RoE	19.9	22.4	21.8	22.6
RoCE	17.6	20.7	20.5	23.3
Valuation Ratios (x)				
P/E	6.3	5.6	4.9	4.0
EV / EBITDA	6.1	4.7	4.4	3.6
EV / Net Sales	0.8	0.7	0.6	0.6
Market Cap / Sales	0.5	0.5	0.4	0.5
Price to Book Value	1.6	1.2	1.1	0.9
Solvency Ratios				
Debt/EBITDA	2.6	1.6	1.2	0.7
Debt / Equity	1.0	0.6	0.4	0.2
Current Ratio	2.8	2.9	2.7	3.1
Quick Ratio	0.8	0.9	1.0	1.1

Source: Company, ICICI Direct Research

Sustainable cash flows; de-leveraging balance sheet...

Dhampur Sugar is undertaking a capacity expansion of 100 KLD distillery in its Asmoli plant with a capex of ₹ 130 crore. The distillery would be commissioned by November–December 2021. With this capex, the total distillery capacity would increase to 500 KLD and it would be able to produce ~17 crore litre of ethanol/ENA per annum. The company would be producing ethanol from B-heavy molasses & sugarcane juice from the new facility. This would significantly improve the distillery realisation. Moreover, Dhampur would be able to sacrifice 10-15% of its sugar for ethanol production, which would help the company to liquidate sugar inventory within a year.

Domestic prices to rise steadily

With the aggressive sugar exports & diversion of sugarcane for ethanol, the sugar industry has been able to reduce sugar inventories from the peak of 14.5 MT in September 2019 to ~8 MT by September 2021. We believe the industry would be able to divert ~5.5 MT of sugar towards ethanol production by 2022-23. This would keep sugar inventory at reasonable levels at 7-8 MT. We believe domestic prices would move up given this rationalisation of inventory. Further, relatively stable sugarcane prices have also improved the profitability of sugar companies. However, we expect 6% increase in state advised price (SAP) for sugarcane in 2021-22 sugar season in UP given sugarcane prices have stayed same for three consecutive years.

Higher distillery revenues to aid profitability

The addition in distillery capacity would help the company to produce 17 crore litre of ethanol/ENA by FY23E. We expect distillery volume of 13 crore & 16.5 crore in FY22E & FY23E, respectively. We expect distillery revenue to grow at a CAGR of 16.7% in FY20-23E to ₹ 923 crore. B-heavy & Sugarcane Juice ethanol would remain remunerative until sugar prices remain below ₹36-39/kg. We believe sugar companies would aggressively divert sugarcane towards ethanol production in the next two to three years, which would not only benefit companies from higher distillery revenues but also improve sugar segment profitability. We estimate 2.3% revenue growth in FY20-23E with considerable increase in distillery revenues & reduction in sugar exports. With the higher profitability from distillery segment, we estimate earnings CAGR of 17.4% during FY20-23E to ₹ 349.1 crore.

Valuation & Outlook

Given rationalisation of sugar inventories and increasing distillery revenues, Dhampur would be able to generate sustainable operating cash flows. We estimate cash flow from operations of ₹ 530 crore & ₹ 420 crore in FY22E & FY23E, respectively. The company would be able to completely de-leverage its balance sheet in the next two to three years with debt reduction of ~₹ 950 crore in FY20-23E. We value the stock 5x FY23E earnings with revised target price of ₹ 260 (earlier ₹ 210). We maintain **BUY** recommendation.



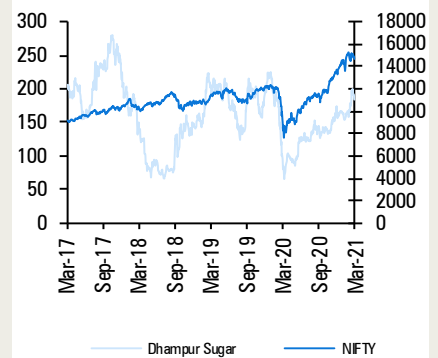
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,222.7
Total Debt (FY20)	1,617.5
Cash and Investments (FY20)	16.4
EV	2,823.8
52 week H/L (₹)	208 / 65.5
Equity capital	66.5
Face value (₹)	10.0

Key Highlights

- Any irrational increase in sugarcane prices could negatively impact profitability
- The possibility of delay in commissioning on new distillery capacities could impact revenues & earnings in FY22E

Price performance



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	2892.3	3485.3	4021.1	3836.0	3727.4	2.3%
EBITDA	473.8	362.2	465.5	508.8	574.0	16.6%
EBITDA Margin %	16.4	10.4	11.6	13.3	15.4	
Net Profit	265.5	215.6	253.2	294.0	349.1	17.4%
EPS (₹)	39.99	32.48	38.14	44.29	52.58	17.4%
P/E	4.6	5.7	4.8	4.2	3.5	
RoNW %	21.7	15.8	16.4	16.4	17.0	
RoCE (%)	14.1	10.4	14.9	16.9	18.6	

Introducing FY23E numbers

We are introducing FY23E numbers. The new distillery capacity would increase the total distillery capacity to ~17 crore litre. We expect 5% sugarcane diversion towards sugarcane Juice ethanol & ~75% of sugarcane diversion towards B-Heavy ethanol. It would be diverting 18-20% sugarcane to produce ENA for the mandatory levy obligation for country liquor manufacturing. We estimate revenue & profitability of ₹ 3727 crore & ₹ 349 crore, respectively, for FY23E.

Exhibit 29: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% change	Old	New	% change	New	
Net sales	4070.9	4021.1	-1.2	3,826.4	3,836.0	0.3	3,727.4	We change our numbers slightly with some tweaking in distillery volume & realisaation
EBITDA	478.5	465.5	-2.7	499.7	508.8	1.8	574.0	
EBITDA Margin (%)	11.8	11.6	-18 bps	13.1	13.3	20 bps	15.4	
PAT	256.1	253.2	-1.1	287.1	294.0	2.4	349.1	
EPS (₹)	38.6	38.1	-1.2	43.3	44.3	2.3	52.6	

Source: Company, ICICI Direct Research

Exhibit 30: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Sugar Sold (in tonne)	660,000	821,700	906,335	798,248	696,536	906,335	798,248	
Sugar Price (₹ per tonne)	30,680	32,660	32,443	32,694	33,500	32,443	33,372	We marginally change our sugar realisation
Distillery volume	106,224	114,351	120,000	132,000	165,000	129,800	128,800	With the commissioning of new distillery capacity, we change our distillery volume estimate for FY22E
Distillery price (₹ per KL)	41,028	45,790	50,827	55,910	55,910	50,827	52,352	Given, the company would maximise B-heavy ethanol contribution, distillery realisation would also increase considerably
Power Units sold	42.9	35.2	35.1	36.5	36.5	35.1	36.5	
Price per unit (₹ per units)	5.2	3.2	3.3	3.3	3.4	3.3	3.3	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 31: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	3,485.3	4,021.1	3,836.0	3,727.4
Growth (%)	20.5	15.4	-4.6	-2.8
Raw Material Expenses	2,714.9	3,130.4	2,920.6	2,747.2
Employee Expenses	140.7	150.8	157.3	164.0
Other expenses	267.6	274.4	249.3	242.3
Total Operating Expenditure	3,123.2	3,555.6	3,327.2	3,153.5
EBITDA	362.2	465.5	508.8	574.0
Growth (%)	-23.6	28.5	9.3	12.8
Depreciation	76.0	74.5	77.6	80.8
Interest	100.6	85.3	61.7	49.7
Other Income	30.1	18.1	19.9	21.9
PBT	185.5	305.7	369.5	443.5
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	-8.4	69.6	95.4	116.4
PAT	215.6	253.2	294.0	349.1
Growth (%)	-18.8	17.4	16.1	18.7
EPS (₹)	32.5	38.1	44.3	52.6

Source: Company, ICICI Direct Research

Exhibit 32: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	207.3	253.2	294.0	349.1
Add: Depreciation	76.0	74.5	77.6	80.8
Add: Interest	100.6	0.0	0.0	0.0
(Inc)/dec in Current Assets	59.6	405.0	84.9	-90.7
Inc/(dec) in Current Liabilities	-55.9	-92.2	74.0	81.3
CF from operating activities	338.2	640.5	530.5	420.4
(Inc)/dec in Investments	0.1	-5.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-59.8	-94.5	-157.6	-160.8
Others	11.2	16.5	0.0	0.0
CF from investing activities	-48.5	-83.0	-162.6	-165.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-94.4	-480.0	-315.0	-160.0
Dividend paid & dividend tax	-71.7	-73.1	-39.9	-93.0
Inc/(dec) in Sec. premium	-6.8	-0.5	0.0	0.0
Others	-120.0	0.0	0.0	0.0
CF from financing activities	-292.9	-553.6	-354.9	-253.0
Net Cash flow	-3.2	3.9	13.0	1.7
Opening Cash	13.2	9.9	13.8	26.8
Cash & cash equivalents	-0.1	0.0	0.0	0.0
Cash with bank	6.5	0.0	0.0	0.0
Closing Cash	16.4	13.8	26.8	28.5

Source: Company, ICICI Direct Research

Exhibit 33: Balance sheet ₹ crore

	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	66.5	66.5	66.5	66.5
Reserve and Surplus	1,295.2	1,474.8	1,729.0	1,985.0
Total Shareholders funds	1,361.7	1,541.3	1,795.4	2,051.4
Total Debt	1,617.5	1,137.5	822.5	662.5
Long Term Provisions	32.4	30.4	28.4	26.4
Other Non-current Liabilities	32.3	30.1	30.1	30.1
Total Liabilities	3,043.8	2,739.2	2,676.3	2,770.4
Assets				
Gross Block	2,637.1	2,731.6	2,879.2	3,029.9
Less: Acc Depreciation	1,002.4	1,076.9	1,154.5	1,235.2
Net Block	1,634.7	1,654.7	1,724.7	1,794.7
Capital WIP	6.8	6.8	16.8	26.8
Intangible assets	2.9	2.9	2.9	2.9
Non Current Investments	2.3	7.3	12.3	17.3
Other non-current assets	29.7	19.7	19.7	19.7
Current Assets				
Inventory	1,603.7	1,329.2	1,278.7	1,397.8
Debtors	343.2	312.8	298.4	289.9
Cash	16.4	13.8	26.8	28.5
Loans & Advances	9.4	9.4	9.4	9.4
Other Current Assets	220.1	120.1	100.1	80.1
Current Liabilities				
Creditors	606.3	642.9	632.1	628.4
Provisions	7.6	7.6	7.6	7.6
Other CL	211.4	86.9	173.7	260.7
Net Current Assets	1,367.4	1,047.8	899.9	909.0
Total Assets	3,043.8	2,739.2	2,676.3	2,770.3

Source: Company, ICICI Direct Research

Exhibit 34: Key ratios ₹ crore

	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	32.5	38.1	44.3	52.6
Cash EPS	43.9	49.3	55.9	64.7
BV	204.9	231.9	270.2	308.7
DPS	9.0	11.0	6.0	14.0
Cash Per Share	150.8	162.1	173.7	185.9
Operating Ratios (%)				
EBITDA Margin	10.4	11.6	13.3	15.4
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	6.2	6.3	7.7	9.4
Inventory days	167.9	120.7	121.7	136.9
Debtor days	35.9	28.4	28.4	28.4
Creditor days	63.5	58.4	60.1	61.5
Return Ratios (%)				
RoE	15.8	16.4	16.4	17.0
RoCE	10.4	14.9	16.9	18.6
Valuation Ratios (x)				
P/E	5.7	4.8	4.2	3.5
EV / EBITDA	7.7	5.0	3.9	3.2
EV / Net Sales	0.8	0.6	0.5	0.5
Market Cap / Sales	0.4	0.3	0.3	0.3
Price to Book Value	0.9	0.8	0.7	0.6
Solvency Ratios				
Debt/EBITDA	4.5	2.4	1.6	1.2
Debt / Equity	1.2	0.7	0.5	0.3
Current Ratio	3.4	2.5	2.3	2.3
Quick Ratio	0.9	0.6	0.5	0.5

Source: Company, ICICI Direct Research

Scaling up operations remains a challenge...

Dwarikesh Sugar (DSL) has 130 KLD distillery capacity and can produce ~4.3 crore litre of ethanol/ENA every year. However, the company has been unable to scale up distillery volumes to the full extent in the last one year due to teething issues after expansion (100 KLD distillery commissioned in December 2019), lower demand during lockdown & lower lifting by OMCs due to infrastructure issues at some of its depot. We expect DSL to sell ~3 crore litre of distillery volumes in FY21E. We believe the company would be able to scale up distillery operations in FY22E. Moreover, it is also planning to undertake another round capacity expansion for distillery. We believe DSL has sufficient feedstock to put another 100 KLD distillery, which can partially be utilised for the ethanol production from sugarcane juice.

Exports to help reduce sugar inventory

The company has received 78000 tonnes of sugar export quota for 2020-21 season, which has been fully contracted. This would help reduce its sugar inventory considerably. We expect DSL to reduce its inventory from 1.7 lakh tonnes (five month inventory) in September 2020 to 1.0 lakh tonnes (three months inventory) by September 2021. This would significantly reduce its working capital debt. Moreover, country level sugar inventory would come down to ~8.0 million tonnes (MT) by September 2021 from the peak of 14.5 MT in September 2019. We believe domestic sugar prices should move up in anticipation of this decline. This would improve the sugar realisation for sugar companies. We estimate average realisation of ₹ 33.5/kg for sugar companies for FY22E.

Distillery revenue to drive growth

We believe ethanol production through B-Heavy and sugarcane juice route is much more remunerative compared to usual C-Heavy process. Moreover, we believe DSL's current capacity would be insufficient to process the entire molasses produced through B-heavy process. Hence, we believe the company would undertake at least 100 KLD capacity expansion in distillery segment to benefit from ethanol production through B-heavy & sugarcane juice process. We expect distillery volumes of 4.3 crore & 5.5 crore in FY22E & FY23E, respectively. Distillery revenue would increase by more than 5x from ₹ 56 crore in FY20 to ₹ 306 crore by FY23E. We expect 79% sugarcane diversion towards B-Heavy & 3% towards sugarcane juice for the company. This would help DSL to reduce its sugar production by ~20%.

Valuation & Outlook

Though we believe the company would be able to witness strong earnings growth & sustainable cash flows in future, the execution & scaling up of project have seen many teething issues in the past. We believe it can face delays in commissioning of new distillery as well. Hence, we await clarity on the details and timeline of capex plan. We maintain our **HOLD** recommendation with a revised target price of ₹ 36 (earlier ₹ 31).



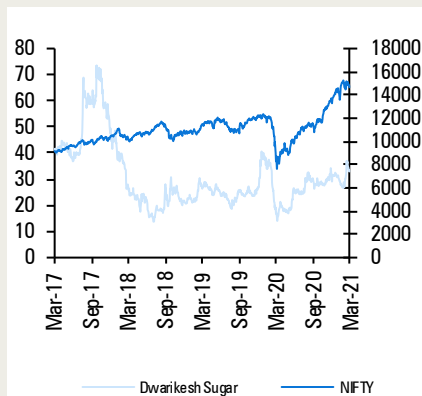
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	595.0
Total Debt (FY20)	654.4
Cash and Investments (FY20)	3.1
EV	1,246.4
52 week H/L (₹)	39 / 13.4
Equity capital	18.8
Face value (₹)	1.0

Key Risk

- Faster commissioning of distillery capacity can aid ethanol volumes significantly. This can result in higher earnings growth
- Any irrational increase in sugarcane prices in 2021-22 season could impact profitability, going forward

Price Performance



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	1084.1	1336.2	1847.6	1569.8	1663.8	8.4%
EBITDA	129.1	136.1	210.7	213.2	250.1	25.2%
EBITDA Margin %	11.9	10.2	11.4	13.6	15.0	
Net Profit	95.1	73.5	101.1	131.2	154.2	33.6%
EPS (₹)	5.1	3.9	5.4	7.0	8.2	
P/E	6.3	8.1	5.9	4.5	3.9	
RoNW %	20.5	15.2	18.2	20.1	19.9	
RoCE (%)	11.8	9.0	17.6	20.5	20.3	

Introducing FY23E numbers

We are introducing FY23E numbers with the expectation that the company would be able to announce & commission distillery capacity by the start of 2022-23 season. We believe adding capacities & scaling up operations remained a challenge for the company in the past. It remains a challenge in future as well. We estimate distillery volumes of 4.3 crore & 5.5 crore litre for FY22E & FY23E, respectively. We expect sales & earnings of ₹ 1664 crore & ₹ 154 crore, respectively, for FY23E.

Exhibit 35: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	
	Old	New	% change	Old	New	% change	New	
Net sales	1878.7	1847.6	-1.7	1,709.0	1,569.8	-8.1	1,663.8	We change our FY22E revenue numbers on the back of expected lower domestic sales quota for UP millers & higher sugarcane diversion towards B-heavy ethanol
EBITDA	209.4	210.7	0.6	216.7	213.2	-1.6	250.1	
EBITDA Margin (%)	11.1	11.4	26 bps	12.7	13.6	90 bps	15.0	
PAT	100.1	101.1	1.0	133.5	131.2	-1.7	154.2	
EPS (₹)	5.3	5.4	1.3	7.10	7.0	-1.9	8.2	

Source: Company, ICICI Direct Research

Exhibit 36: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Sugar Sold (in tonne)	317,700	387,848	498,385	373,789	373,789	508,081	416,626	We change our sugar volume estimates for FY22E considering lower domestic sugar quota for UP millers
Sugar Price (₹ per tonne)	29,628	31,300	32,000	33,500	34,000	32,000	33,500	
Distillery volume	9,017	11,600	30,030	42,900	57,500	30,030	42,050	
Distillery price (₹ per KL)	40,278	48,350	49,414	55,344	55,344	49,414	55,344	
Power Units sold	20.2	16.3	18.8	19.5	19.5	18.8	19.5	
Price per unit (₹ per units)	5.0	2.9	3.2	3.3	3.4	3.2	3.3	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 37: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	1,336.2	1,847.6	1,569.8	1,663.8
Growth (%)	23.3	38.3	-15.0	6.0
Raw Material Expenses	1,029.3	1,447.5	1,196.4	1,234.0
Employee Expenses	78.8	85.0	86.3	99.8
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	92.0	104.4	73.8	79.9
Total Operating Expenditure	1,200.1	1,636.9	1,356.5	1,413.7
EBITDA	136.1	210.7	213.2	250.1
Growth (%)	5.5	54.8	1.2	17.3
Depreciation	36.9	41.9	38.4	43.6
Interest	33.0	43.9	11.2	13.7
Other Income	5.4	8.1	9.1	10.2
PBT	66.2	125.0	163.6	192.7
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	-1.9	31.9	41.4	48.7
PAT	73.5	101.1	131.2	154.2
Growth (%)	-22.7	37.6	29.7	17.5
EPS (₹)	3.9	5.4	7.0	8.2

Source: Company, ICICI Direct Research

Exhibit 38: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	57.2	101.1	131.2	154.2
Add: Depreciation	36.9	41.9	38.4	43.6
Add: Interest	33.0	0.0	0.0	0.0
(Inc)/dec in Current Assets	-145.0	159.1	105.0	-62.3
Inc/(dec) in Current Liabilities	29.3	-1.6	-31.9	-11.4
CF from operating activities	11.3	300.5	242.8	124.1
(Inc)/dec in Investments	0.4	2.0	2.0	2.0
(Inc)/dec in Fixed Assets	-111.9	-20.0	-30.0	-130.0
Others	-7.4	11.2	0.0	0.0
CF from investing activities	-119.0	-6.8	-28.0	-128.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	185.5	-230.0	-200.0	50.0
Dividend paid & dividend tax	-45.4	-34.0	-34.0	-34.0
Inc/(dec) in Sec. premium	0.0	4.8	0.0	0.0
Others	-31.0	0.0	0.0	0.0
CF from financing activities	109.1	-259.2	-234.0	16.0
Net Cash flow	1.4	34.5	-19.2	12.1
Opening Cash	0.5	1.9	36.4	17.2
Cash with bank	1.2	0.0	0.0	0.0
Closing Cash	3.1	36.4	17.2	29.3

Source: Company, ICICI Direct Research

Exhibit 39: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	18.8	18.8	18.8	18.8
Reserve and Surplus	464.9	536.8	634.0	754.2
Total Shareholders funds	483.7	555.6	652.9	773.0
Total Debt	654.4	424.4	224.4	274.4
Long Term Provisions	19.0	17.0	15.0	13.0
Other Non-current Liabilities	6.2	6.2	6.2	6.2
Total Liabilities	1,163.4	1,003.3	898.5	1,066.7
Assets				
Gross Block	911.0	931.0	961.0	1,091.0
Less: Acc Depreciation	480.6	522.5	561.0	604.6
Net Block	430.3	408.4	400.0	486.4
Capital WIP	1.9	1.9	1.9	1.9
Intangible assets	0.0	0.0	0.0	0.0
Non Current Investments	0.3	0.3	0.3	0.3
Other non-current assets	77.7	65.7	63.7	61.7
Current Assets				
Inventory	912.5	769.8	654.1	693.2
Debtors	98.0	61.6	52.3	55.5
Cash	3.1	36.4	17.2	29.3
Loans & Advances	0.1	0.1	0.1	0.1
Other Current Assets	85.4	105.4	125.4	145.4
Current Liabilities				
Creditors	209.9	220.3	190.4	181.0
Provisions	2.9	2.9	2.9	2.9
Other CL	233.2	223.2	223.2	223.2
Net Current Assets	653.1	526.9	432.6	516.4
Total Assets	1,163.4	1,003.3	898.5	1,066.7

Source: Company, ICICI Direct Research

Exhibit 40: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	3.9	5.4	7.0	8.2
Cash EPS	5.9	7.6	9.0	10.5
BV	25.7	29.5	34.7	41.1
DPS	2.4	1.8	1.8	1.8
Cash Per Share	25.5	27.7	29.8	32.1
Operating Ratios (%)				
EBITDA Margin	10.2	11.4	13.6	15.0
PBT / Net Sales	5.4	7.2	11.0	12.2
PAT Margin	5.5	5.5	8.4	9.3
Inventory days	249.3	152.1	152.1	152.1
Debtor days	26.8	12.2	12.2	12.2
Creditor days	57.3	43.5	44.3	39.7
Return Ratios (%)				
RoE	15.2	18.2	20.1	19.9
RoCE	9.0	17.6	20.5	20.3
Valuation Ratios (x)				
P/E	8.1	5.9	4.5	3.9
EV / EBITDA	9.0	4.6	3.7	3.3
EV / Net Sales	0.9	0.5	0.5	0.5
Market Cap / Sales	0.4	0.3	0.4	0.4
Price to Book Value	1.2	1.1	0.9	0.8
Solvency Ratios				
Debt/EBITDA	4.8	2.0	1.1	1.1
Debt / Equity	1.4	0.8	0.3	0.4
Current Ratio	4.9	4.1	4.2	4.8
Quick Ratio	0.8	0.7	0.9	1.1

Source: Company, ICICI Direct Research

High debt impacting profitability...

Avadh Sugar has 31400 TCD sugarcane crushing capacity 200 KLD distillery capacity & 74 MW saleable power capacity. The company produces ~6.8 lakh tonnes of sugar, 6 crore litre of ethanol & 19 crore units of saleable power. In FY20, the company diverted 40% of its sugarcane towards the B-heavy process to produce ethanol. It produced ~5.7 crore litre of ethanol running the distillery for ~280 days. However, with the installation of Insulation boilers, the company would be able to operate for more than 330 days. Further, it can run the distilleries at 120% utilisation by maximising the production of B-heavy ethanol. We believe the company can produce 8 crore litre of ethanol/ENA with its current capacity.

Uptick in domestic prices to improve profitability

With the aggressive 6 million tonnes (MT) of exports and 2 MT of sugar sacrifice for ethanol production by the industry, sugar inventories are going to come down to ~8 MT. In anticipation of lower sugar inventories, we believe domestic sugar prices would move northwards. Further, Industry wise distillery capacity addition in next two to three years would help in diverting more and more sugar for ethanol production. This would lead to the increase in domestic sugar prices in H1FY22E.

Lower yield, recoveries to impact production

In the current sugar season, sugarcane yields & sugar recoveries are down in UP, especially in central and eastern UP, where most of the company's mills are present. We believe the company would see 10-15% decline in sugar production & ~₹ 1/kg increase in cost of production given recovery rates are down by ~30 bps. This would impact the profitability to certain extent in Q4FY21. However, we believe expected increase in domestic sugar prices would bring some relief for the company.

High debt remains a concern

Though the company would be able to export its entire 1.28 lakh tonnes of allocated quota, we believe inventory level still remains relatively high. The company has also not been able to reduce its debt levels in the last two years. We believe Avadh would take longer to de-leverage its balance sheet. Also, it has not yet announced any distillery capacity addition to utilise the sugarcane juice route for the ethanol production. We estimate relatively high interest outgo of ₹ 107 crore & ₹ 81 crore for FY22E & FY23E, respectively.

Valuation & Outlook

With the increase in distillery volumes, the company would be able to witness strong earnings CAGR of 17.6% CAGR in the next two years. However, we still believe overall debt levels is high. Avadh has been unable to reduce its sugar inventories as aggressively as some of its peers in the industry. We remain cautious on debt reduction & delay in distillery capacity addition. We value the stock 5x FY23E EV/EBITDA with a revised target price of ₹ 210 (earlier ₹ 195). We maintain **HOLD** recommendation on the stock.



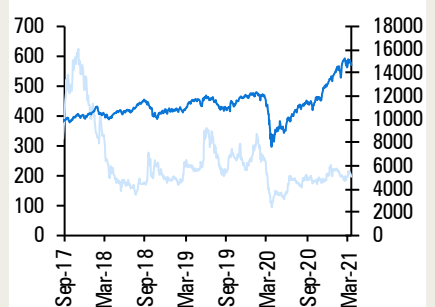
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	380.0
Total Debt (FY20)	1,482.0
Cash and Investments (FY20)	7.4
EV	1,854.6
52 week H/L (₹)	244 / 88.5
Equity capital	20.0
Face value (₹)	10.0

Key Risk

- Any irrational increase in sugarcane prices would negatively impact profitability
- The company can export higher sugar than its allocated quota by taking other mills quota. This can de-leverage its balance sheet faster & improve earnings in FY22E

Price Performance



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	2130.2	2559.4	2584.0	2671.2	2896.7	4.2%
EBITDA	291.4	261.4	280.0	293.4	298.1	4.5%
EBITDA Margin %	13.7	10.2	10.8	11.0	10.3	
Net Profit	119.9	88.6	102.2	119.4	144.0	17.6%
EPS (₹)	59.94	44.31	51.11	59.71	71.99	17.6%
P/E	3.2	4.3	3.7	3.2	2.6	
RoNW %	23.6	15.0	14.9	14.9	15.4	
RoCE (%)	12.8	10.6	11.0	12.5	14.3	

Introducing FY23E numbers

We are introducing FY23E numbers. We believe the company would be able to increase its distillery volumes to 8 crore litre with the installation of insinuation boilers & maximise its B-Heavy ethanol volumes. However, it would still be unable to utilise sugarcane juice route to further increase distillery volumes in future. We believe the company would prefer to de-leverage its balance sheet before undertaking any capacity addition. We estimate revenue & earnings of ₹ 2897 crore & ₹ 144 crore, respectively, for FY23E

Exhibit 41: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% change	Old	New	% change	New	
Net sales	2786.0	2584.0	-7.8	2,783.2	2671.2	-4.2	2896.7	With the change in sugar volumes, distillery volumes & distillery realisation estimates, we are reducing our revenue estimates
EBITDA	281.8	280.0	-0.6	274.2	293.4	6.5	298.1	Due to higher distillery volumes & realisation, operating profit would improve in FY22E
EBITDA Margin (%)	10.1	10.8	72 bps	9.9	11.0	113 bps	10.3	
PAT	110.4	102.2	-8.0	121.0	119.4	-1.3	144.0	Interest cost would remain high for the company in FY22E
EPS (₹)	55.2	51.1	-8.0	60.5	59.7	-1.3	72.0	

Source: Company, ICICI Direct Research

Exhibit 42: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	
Sugar Sold (in tonne)	556,500	679,600	625,232	606,475	667,123	679,600	659,212	With the decline in sugar production due to sugar yield & recoveries, sugar volumes are expected to be lower in FY21E & FY22E
Sugar Price (₹ per tonne)	30,696	29,962	32,000	33,500	34,000	32,500	33,000	We slightly change our sugar realisation estimate
Distillery volume (in cr litre)	5.8	4.8	7.0	8.0	8.0	6.0	7.0	With the installation of insinuation boiler, the distillery can operate for 330 days. Hence, we change our distillery volumes estimate
Distillery price (₹ per KL)	43.7	49.4	54.2	54.9	54.9	53.2	53.7	Higher proportion of B-Heavy ethanol would improve realisation
Power Units sold	19.0	18.9	19.2	19.2	19.2	19.2	19.2	
Price per unit (₹ per units)	5.0	3.0	3.1	3.2	3.3	3.1	3.1	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 43: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	2,559.4	2,584.0	2,671.2	2,896.7
Growth (%)	20.2	1.0	3.4	8.4
Raw Material Expenses	1,974.1	1,983.6	2,049.2	2,253.9
Employee Expenses	91.8	98.2	104.2	113.0
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	232.1	222.2	224.4	231.7
Total Operating Expenditure	2,298.0	2,304.0	2,377.8	2,598.6
EBITDA	261.4	280.0	293.4	298.1
Growth (%)	-10.3	7.1	4.8	1.6
Depreciation	44.9	41.9	42.6	43.3
Interest	116.0	111.3	107.4	80.7
Other Income	5.6	5.9	5.9	5.9
PBT	100.5	126.8	143.4	174.0
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	17.5	30.5	29.9	36.0
PAT	88.6	102.2	119.4	144.0
Growth (%)	-26.1	15.4	16.8	20.6
EPS (₹)	44.3	51.1	59.7	72.0

Source: Company, ICICI Direct Research

Exhibit 44: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	106.2	102.2	119.4	144.0
Add: Depreciation	44.9	41.9	42.6	43.3
Add: Interest	116.0	0.0	0.0	0.0
(Inc)/dec in Current Assets	-182.9	-32.5	152.9	149.1
Inc/(dec) in Current Liabilities	130.1	-104.7	29.6	92.4
CF from operating activities	184.9	6.9	344.4	428.8
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-99.6	-20.0	-62.6	-63.3
Others	1.2	4.8	0.0	0.0
CF from investing activities	-98.4	-15.2	-62.6	-63.3
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	93.8	30.0	-270.0	-370.0
Dividend paid & dividend tax	-8.5	-8.0	-6.0	-6.0
Inc/(dec) in Sec. premium	-112.5	0.0	0.0	0.0
Others	-57.0	0.0	0.0	0.0
CF from financing activities	-84.2	22.0	-276.0	-376.0
Net Cash flow	2.2	13.7	5.9	-10.5
Opening Cash	3.1	5.4	19.1	25.0
Cash with bank	2.0	0.0	0.0	0.0
Closing Cash	7.4	19.1	25.0	14.5

Source: Company, ICICI Direct Research

Exhibit 45: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	20.0	20.0	20.0	20.0
Reserve and Surplus	571.8	666.0	779.4	917.4
Total Shareholders funds	591.8	686.0	799.4	937.4
Total Debt	1,482.0	1,512.0	1,242.0	872.0
Long Term Provisions	3.2	3.2	3.2	3.2
Other Non-current Liabilities	15.2	15.2	15.2	15.2
Total Liabilities	2,092.1	2,216.4	2,059.8	1,827.8
Assets				
Gross Block	1,142.8	1,162.8	1,182.8	1,202.8
Less: Acc Depreciation	176.9	218.8	218.8	218.8
Net Block	965.9	944.0	964.0	984.0
Capital WIP	68.7	68.7	68.7	68.7
Intangible assets	0.6	0.6	0.6	0.6
Non Current Investments	9.9	9.9	9.9	9.9
Other non-current assets	15.6	15.6	15.6	15.6
Current Assets				
Inventory	1,485.5	1,543.2	1,394.9	1,247.2
Debtors	108.9	83.6	79.0	77.7
Cash	7.4	19.1	25.0	14.5
Loans & Advances	1.2	1.2	1.2	1.2
Other Current Assets	192.7	192.7	192.7	192.7
Current Liabilities				
Creditors	599.1	444.4	423.9	466.3
Provisions	6.8	6.8	6.8	6.8
Other CL	161.1	211.1	261.1	311.1
Net Current Assets	1,028.7	1,177.6	1,001.0	749.0
Total Assets	2,089.3	2,216.4	2,059.8	1,827.8

Source: Company, ICICI Direct Research

Exhibit 46: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	44.3	51.1	59.7	72.0
Cash EPS	66.7	72.0	81.0	93.6
BV	295.9	343.0	399.7	468.7
DPS	1.8	4.0	3.0	3.0
Cash Per Share	88.5	109.4	109.4	109.4
Operating Ratios (%)				
EBITDA Margin	10.2	10.8	11.0	10.3
PBT / Net Sales	4.1	5.1	5.6	6.2
PAT Margin	3.5	4.0	4.5	5.0
Inventory days	211.8	218.0	190.6	157.2
Debtor days	15.5	11.8	10.8	9.8
Creditor days	85.4	62.8	57.9	58.8
Return Ratios (%)				
RoE	15.0	14.9	14.9	15.4
RoCE	10.6	11.0	12.5	14.3
Valuation Ratios (x)				
P/E	4.3	3.7	3.2	2.6
EV / EBITDA	7.0	6.6	5.4	4.1
EV / Net Sales	0.7	0.7	0.6	0.4
Market Cap / Sales	0.1	0.1	0.1	0.1
Price to Book Value	0.6	0.6	0.5	0.4
Solvency Ratios				
Debt/EBITDA	5.7	5.4	4.2	2.9
Debt / Equity	2.5	2.2	1.6	0.9
Current Ratio	2.9	3.5	3.0	2.4
Quick Ratio	0.5	0.5	0.5	0.4

Source: Company, ICICI Direct Research

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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