

Await till excess sugar is exported...

Avadh Sugar reported Q4FY21 results with 7.5% revenue and 12.6% PBT growth. Revenue growth was led by 26.6% growth in distillery, 7.5% growth in sugar sales. Sugar volumes were up 6.2% on account of higher exports volume given the government announced export subsidy in December 2020. However, sugar prices stayed muted at ₹ 31.3/kg due to dismal winter demand and peak crushing season. Distillery volumes increased 17.7% to 1.6 crore litre with the installation of insinuation boiler at one of its distilleries at the start of the crushing season. Distillery realisation was up 7.1% to ₹ 57.6/litre as the company is entirely producing B-heavy ethanol (realisation is up 25% compared to C-Heavy ethanol). Power sales is down 3.7% on the back of lower 16% decline in co-generation volumes & 2.4% increase in power realisation. Industry prefers to sell bagasse in open market rather than power due to lower tariffs. Operating profit increased 12.5% to ₹ 107 crore led by higher distillery sales. PAT fell 6.4% to ₹ 56.6 crore due to tax write back in the base quarter. The company announced a dividend of ₹ 4/share.

Increasing global sugar prices likely to drive exports

With the 20% increase in global sugar prices, the sugar industry has been able to complete 90% of the 6 million tonnes (MT) exports in the current sugar season. We believe raw sugar prices above 19-20 cents/lb would further attract exports under OGL. The company is holding relatively high inventory of 3.8 lakh tonnes. We believe Avadh would be able to rationalise its inventories through exports, which would help reduce working capital debt and, in turn, lower the interest cost. We expect cash flow generation of ~₹ 840 crore and debt repayment of ₹ 660 crore in the next two years.

Distillery capex to improve earnings trajectory

The company is increasing its distillery capacity from 200 KLD to 320 KLD with capex of ₹ 135 crore. We believe this would increase the annual ethanol volume to 10 crore litre in the next two years from 6 crore currently. Avadh has diverted 60% of its sugarcane towards B-heavy ethanol, which would increase to ~80% in the next two years. We estimate distillery volume CAGR of 17.6% in FY21-23E with average realisation of ₹ 56/litre considering higher proportion of B-heavy ethanol sales. This would boost distillery sales & rationalise sugar inventories. We expect 42.3% earnings CAGR in FY21-23E.

Valuation & Outlook

Avadh has sizable sugar and ethanol capacity and is also further increasing its distillery capacity to utilise B-heavy route for producing ethanol. However, due to higher sugar inventory levels, the working capital debt for the company still remains high. Though we believe increasing global sugar prices would help it to export excess inventories in the next one year, we will still watch whether global sugar prices move up and the company contracts additional sugar volumes. We maintain our **HOLD** rating with a revised target price of ₹ 345 (earlier ₹ 210) valuing it at 5x FY22E EV/EBITDA.



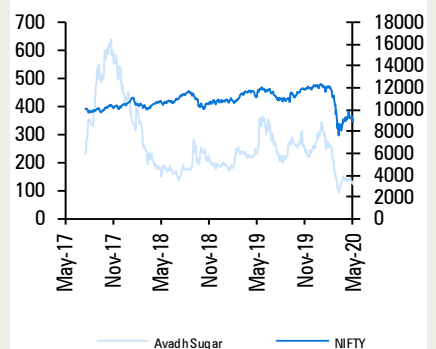
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	611.6
Total Debt (FY21)	1,215.1
Cash and Investments (FY21)	6.9
EV	1,819.7
52 week H/L (₹)	345 / 119.4
Equity capital	20.0
Face value (₹)	10.0

Key Risk

- Any improvement in Brazilian sugar product could lead to subdued global sugar price and can adversely impact Indian sugar export programme
- Distillery expansion could lead to higher ethanol volumes & in turn improve profitability & cash flows

Price Performance



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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Total Operating Income	2130.2	2559.4	2710.5	3022.4	2841.2	2.4%
EBITDA	291.4	261.4	259.3	288.1	312.3	9.7%
EBITDA Margin %	13.7	10.2	9.6	9.5	11.0	
Net Profit	119.9	88.6	77.6	124.2	157.1	42.3%
EPS (₹)	59.94	44.31	38.79	62.12	78.57	42.3%
P/E	5.1	6.9	7.9	4.9	3.9	
RoNW %	23.6	15.0	11.7	15.9	16.9	
RoCE (%)	12.8	10.6	11.5	14.7	17.7	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY20	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	830.8	773.1	7.5	696.3	19.3	Revenue growth was led by strong 26.6% increase in distillery sales
Other Operating Income	0.0	0.0	NC	0.0	NC	
Raw Material Expenses	628.1	578.6	8.5	564.2	11.3	
Employee Expense	27.8	27.3	1.8	25.9	7.3	
Other operating Expenses	67.9	72.1	-5.8	63.3	7.3	
EBITDA	107.0	95.1	12.5	42.9	149.4	Operating profit witnessed a growth of 12.5% given the company produced & sold only B-heavy ethanol
EBITDA Margin (%)	12.9	12.3	58 bps	6.2	672 bps	
Depreciation	12.7	11.5	10.6	12.7	-0.1	
Interest	27.9	23.2	20.5	26.4	5.5	Interest cost remains high due to high inventory levels
Other Income	2.0	0.3	507.2	3.6	-43.6	
PBT	68.5	60.8	12.6	7.4	829.9	PBT grew by 12.6% led by higher operating profit
Tax Outgo	11.9	0.3	NC	3.6	226.5	
PAT	56.6	60.5	-6.4	3.7	NC	Net profit declined by 6.4% due to tax write back in base quarter
Key Metrics						
Sugar sales volume (in tonnes)	2.1	2.0	6.2	1.8	22.0	Sugar volumes increased by 6.2% with increase in exports sales
Domestic Sugar realisation (₹ per kg)	31.3	31.7	-1.2			Domestic sugar prices remains muted due to peak crushing season & low winter demand
Distillery volumes (in crore litre)	1.6	1.4	17.7	2.0	-18.0	Distillery segment volumes increased by 17.7% with ramping up of capacity after the installation of insinuation boiler
Distillery realisation (₹ per litre)	57.6	53.8	7.1	48.0	19.9	Higher distillery realisation given company only sold B-heavy ethanol which fetches 25% higher realisation

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% change	Old	New	% change	
Net sales	2671.2	3022.4	13.1	2,896.7	2841.2	-1.9	We are expecting higher export sales in FY22E with global prices moving up sharply
EBITDA	293.4	288.1	-1.8	298.1	312.3	4.8	Lower operating profit in FY22E due to lower-than-expected power sales as sugarcane crushing is relatively low
EBITDA Margin (%)	11.0	9.5	-145 bps	10.3	11.0	70 bps	
PAT	119.4	124.2	4.0	144.0	157.1	9.1	
EPS (₹)	59.7	62.1	4.0	72.0	78.6	9.1	With liquidation of inventory & debt repayment, interest cost is likely to come down and improve profitability. We are factoring in faster liquidation of inventory

Source: Company, ICICI Direct Research

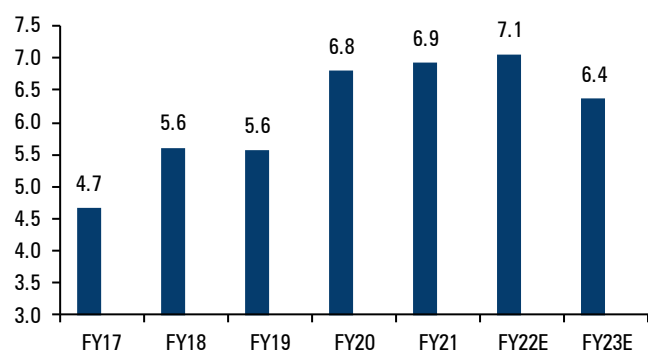
Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY19	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Sugar Sold (in tonne)	556,500	679,600	692,800	706,656	635,990	606,475	667,123	With global prices moving up sharply, the company is expected to liquidate excess inventory in FY22
Sugar Price (₹ per tonne)	30,696	29,962	31,850	33,500	34,000	33,500	34,000	
Distillery volume (in cr litre)	5.8	4.8	6.2	8.0	8.6	8.0	8.0	
Distillery price (₹ per KL)	43.7	49.4	55.6	55.6	56.1	54.9	54.9	
Power Units sold	19.0	17.6	14.8	17.0	17.1	19.2	19.2	We change our co-generation volume estimate as sugar mills are preferring to sell bagasse instead of power
Price per unit (₹ per units)	5.0	2.9	3.0	3.1	3.2	3.2	3.3	

Source: Company, ICICI Direct Research

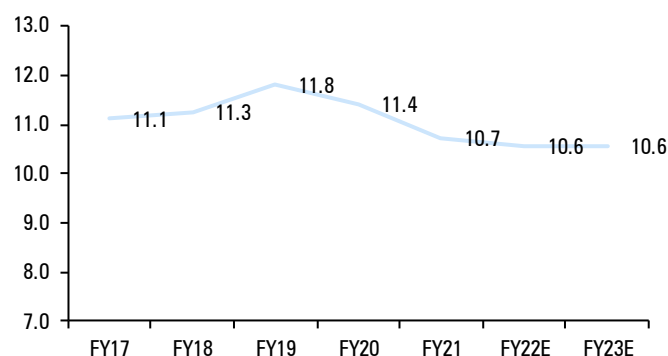
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



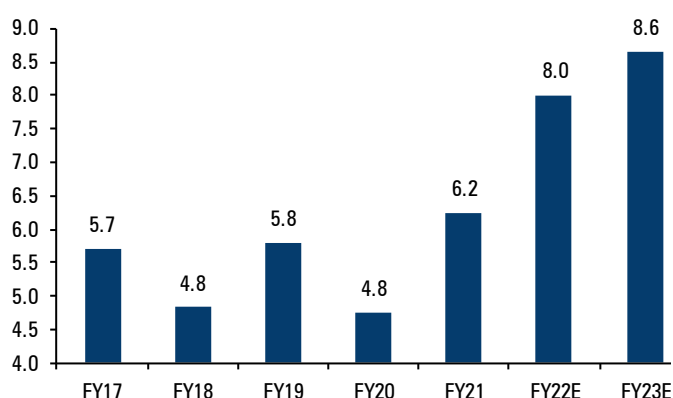
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



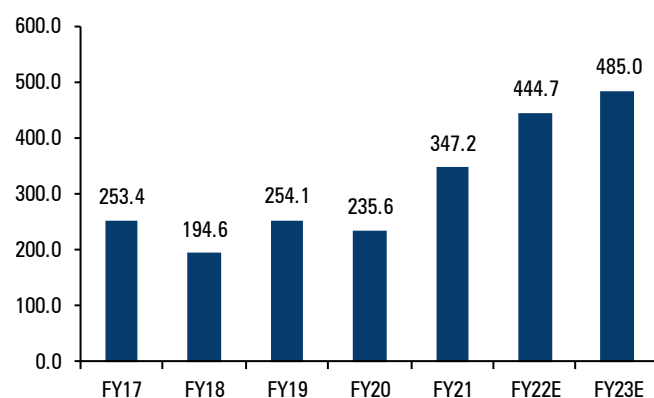
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



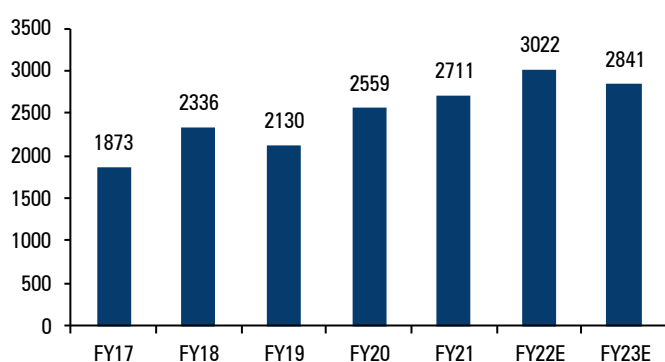
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



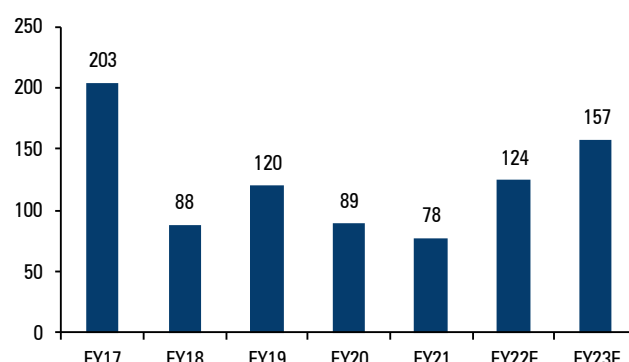
Source: Company, ICICI Direct Research

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	2559.4	20.2	44.3	-26.1	6.9	7.9	15.0	10.6
FY21	2710.5	5.9	38.8	-12.4	7.9	7.0	11.7	11.5
FY22E	3022.4	11.5	62.1	60.1	4.9	4.9	15.9	14.7
FY23E	2841.2	-6.0	78.6	26.5	3.9	3.6	16.9	17.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	2,559.4	2,710.5	3,022.4	2,841.2
Growth (%)	20.2	5.9	11.5	-6.0
Raw Material Expenses	1,974.1	2,127.7	2,397.3	2,188.0
Employee Expenses	91.8	97.3	104.3	113.6
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	232.1	226.2	232.7	227.3
Total Operating Expenditure	2,298.0	2,451.2	2,734.3	2,528.9
EBITDA	261.4	259.3	288.1	312.3
Growth (%)	-10.3	-0.8	11.1	8.4
Depreciation	44.9	48.3	53.2	54.0
Interest	116.0	116.0	78.9	55.2
Other Income	5.6	6.4	6.4	6.4
PBT	100.5	95.0	156.0	203.1
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	17.5	23.8	38.2	52.4
PAT	88.6	77.6	124.2	157.1
Growth (%)	-26.1	-12.4	60.1	26.5
EPS (₹)	44.3	38.8	62.1	78.6

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/Loss after Tax	106.2	101.4	124.2	157.1
Add: Depreciation	44.9	48.4	53.2	54.0
Add: Interest	116.0	116.0	0.0	0.0
(Inc)/dec in Current Assets	-182.9	268.3	350.8	71.1
Inc/(dec) in Current Liabilities	130.1	-49.3	-46.6	81.0
CF from operating activities	184.9	465.5	481.6	363.2
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-99.6	-110.9	-73.2	-74.0
Others	1.2	2.9	2.0	0.0
CF from investing activities	-98.4	-108.0	-71.1	-74.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	93.8	-53.0	-370.0	-290.0
Dividend paid & dividend tax	-8.5	-8.0	-8.0	-12.0
Inc/(dec) in Sec. premium	-112.5	-119.1	0.0	0.0
Others	-57.0	-177.6	0.0	0.0
CF from financing activities	-84.2	-358.0	-378.0	-302.0
Net Cash flow	2.2	-0.5	32.4	-12.8
Opening Cash	3.1	5.4	4.9	37.3
Cash with bank	2.0	0.0	0.0	0.0
Closing Cash	7.4	4.9	37.3	24.6

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	20.0	20.0	20.0	20.0
Reserve and Surplus	571.8	645.7	762.0	907.1
Total Shareholders funds	591.8	665.8	782.0	927.1
Total Debt	1,482.0	1,215.1	845.1	555.1
Long Term Provisions	3.2	4.0	4.0	4.0
Other Non-current Liabilities	15.2	12.4	12.4	12.4
Total Liabilities	2,092.1	1,897.3	1,643.5	1,498.6
Assets				
Gross Block	1,142.8	1,309.6	1,329.6	1,349.6
Less: Acc Depreciation	176.9	225.2	225.2	225.2
Net Block	965.9	1,084.4	1,104.4	1,124.4
Capital WIP	68.7	14.0	14.0	14.0
Intangible assets	0.6	0.5	0.5	0.5
Non Current Investments	9.9	15.2	15.2	15.2
Other non-current assets	15.6	7.7	7.7	7.7
Current Assets				
Inventory	1,485.5	1,350.6	965.5	907.6
Debtors	108.9	55.1	89.4	76.2
Cash	7.4	6.9	37.3	24.6
Loans & Advances	1.2	0.5	0.5	0.5
Other Current Assets	195.5	113.9	113.9	113.9
Current Liabilities				
Creditors	599.1	539.5	442.9	473.9
Provisions	6.8	6.1	6.1	6.1
Other CL	161.1	206.0	256.0	306.0
Net Current Assets	1,031.5	775.5	501.7	336.8
Total Assets	2,092.1	1,897.3	1,643.5	1,498.6

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	44.3	38.8	62.1	78.6
Cash EPS	66.7	62.9	88.7	105.6
BV	295.9	332.9	391.0	463.6
DPS	1.8	4.0	4.0	6.0
Cash Per Share	88.5	112.6	112.6	112.6
Operating Ratios (%)				
EBITDA Margin	10.2	9.6	9.5	11.0
PBT / Net Sales	4.1	3.7	5.4	7.4
PAT Margin	3.5	2.9	4.1	5.5
Inventory days	211.8	181.9	116.6	116.6
Debtor days	15.5	7.4	10.8	9.8
Creditor days	85.4	72.6	53.5	60.9
Return Ratios (%)				
RoE	15.0	11.7	15.9	16.9
RoCE	10.6	11.5	14.7	17.7
Valuation Ratios (x)				
P/E	6.9	7.9	4.9	3.9
EV / EBITDA	7.9	7.0	4.9	3.6
EV / Net Sales	0.8	0.7	0.5	0.4
Market Cap / Sales	0.2	0.2	0.2	0.2
Price to Book Value	1.0	0.9	0.8	0.7
Solvency Ratios				
Debt/EBITDA	5.7	4.7	2.9	1.8
Debt / Equity	2.5	1.8	1.1	0.6
Current Ratio	2.9	2.6	2.2	1.8
Quick Ratio	0.5	0.3	0.4	0.3

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	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
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	345	Hold	612	38.8	62.1	78.6	7.9	4.9	3.9	7.0	4.9	3.6	0.9	0.8	0.7	11.5	14.7	17.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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