

New capacity addition extends growth visibility...

Sugar companies with aggressive sugar exports have been able to significantly reduce sugar inventory, generate huge cash flows & reduce considerable working capital debt by September 2020. Dalmia Bharat sugar (DBSL) also exported more than 1.7 lakh tonnes (lt) of sugar in 2019-20 sugar season, generated operating cash flow of ~₹ 900 crore in the last six months & reduced working capital debt by ~₹ 770 crore. With 4.4 crore litre of distillery volumes in H1FY21, the company is utilising its 240 KLD capacity at more than 100%. We believe the company would be able to divert more than 60% of sugarcane towards B heavy ethanol that would result in ~50,000 tonnes of sugar sacrifice for additional ethanol production.

Distillery capacity addition to help control sugar production

DBSL has announced doubling of distillery capacity from current 8 crore litre per annum (pa) to 16 crore litre pa. Also, it has announced addition of 5000 TCD crushing capacity. The capacity addition would need capex of ₹ 412 crore in the next two to three years. We believe the new distillery capacity would be fungible to produce ethanol from sugarcane juice that would lead to higher sacrifice of sugar & would give flexibility to it to produce either sugar or ethanol. The industry plans to sacrifice 2.0 million tonnes (MT) of sugar in 2020-21 season. With slew of capacity addition announcements, we believe industry would be able to sacrifice more than 4.0 MT of sugar in next two years, which would help in maintaining sugar balance in the country & also generate additional revenue, earnings from distillery operations.

Higher sugar, ethanol volumes aid strong Q2 results

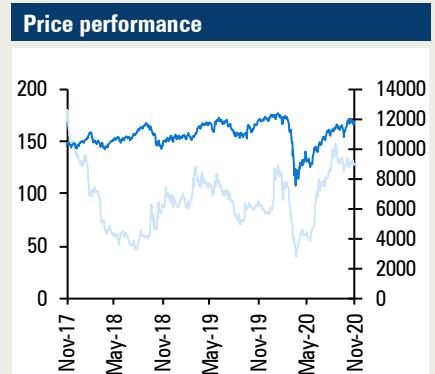
DBSL has posted strong 78.4% growth in net sales led by 76.2% growth in sugar and 160.1% growth in distillery segment. The higher sugar sales were mainly on account of higher domestic sales quota & aggressive exports. Further, the company ramped up utilisation of new 100 KLD distillery commissioned last year. We estimate 6.8 lt of sugar sales volumes in FY21E largely supported by aggressive exports, which would result in sugar inventory reduction of 1.4 lt by March 2021. Further distillery volumes would increase by 31.3% to 8.4 crore litre in FY21. However, we estimate lower sugar volumes in FY22E given already reduced sugar inventories & additional sugar sacrifice for producing more ethanol. We estimate revenue & earnings CAGR of 12.6% & 16.6% in FY20-22E.

Valuation & Outlook

With significant reduction of sugar inventory through export & sacrifice towards B-heavy ethanol, DBSL would be able to generate cash from operations to the tune of ₹ 607 crore & ₹ 444 crore in FY21E & FY22E, respectively. We expect debt reduction of ₹ 790 crore by FY22E. With new addition in distillery capacities, the visibility of revenues & earnings growth has extended for next five years. We revise our target price to ₹ 180 (from earlier target price of ₹ 160) and maintain our **BUY** recommendation.



Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	1,060.3
Total Debt (FY20)	1,192.6
Cash and Investments (FY20)	67.1
EV	2,185.8
52 week H/L (₹)	156 / 40
Equity capital	16.2
Face value (₹)	2.0



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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	2244.4	2018.5	2110.8	2802.1	2677.3	12.6%
EBITDA	234.2	265.7	336.6	399.6	383.2	6.7%
EBITDA Margin %	10.4	13.2	15.9	14.3	14.3	
Net Profit	122.3	175.2	193.2	270.2	262.8	16.6%
EPS (₹)	15.11	21.64	23.87	33.39	32.47	
P/E	8.7	6.1	5.5	3.9	4.0	
RoNW %	8.1	11.4	9.0	15.4	13.4	
RoCE (%)	8.1	9.8	11.8	15.4	14.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	719.5	403.3	78.4	881.5	-18.4	Net sales witness sharp increase mainly on account of aggressive exports & higher domestic sales quota. Moreover, distillery volumes were also boosted by better utilisation of new distillery
Other Operating Income	11.4	88.7	N.A.	16.5	N.A.	
Raw Material Expenses	553.7	316.4	75.0	587.8	-5.8	
Employee Expense	32.0	29.7	7.7	30.3	5.6	
Other operating Expenses	42.2	40.4	4.5	66.4	-36.4	
EBITDA	91.6	16.8	445.3	197.0	-53.5	The increase in operating profit was mainly on account of higher sales of sugar & ethanol
EBITDA Margin (%)	12.7	4.2	856 bps	22.3	-962 bps	
Depreciation	14.9	14.4	3.3	14.5	2.2	
Interest	14.9	21.4	-30.2	25.6	-41.9	
Other Income	11.4	88.7	-87.1	16.5	-30.6	The base quarter accounts for export subsidy, which was absent in current quarter
PBT	73.2	69.8	5.0	173.3	-57.7	
Tax Outgo	17.7	18.1	-2.3	47.4	-62.7	
PAT	55.6	51.7	7.5	125.9	-55.9	Despite, no export subsidy in base quarter, net profit increased by 7.5%
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.8	1.1	72.4	2.0	-10.8	With higher domestic quota & exports, sugar volumes increased by 72.4%
Distillery volumes (in crore litre)	2.1	0.9	133.3	2.3	-10.3	Distillery volumes more than doubled with new 100 KLD distillery scaling up operations
Power volumes (in cr unit)	0	2	-100.0	9	-100.0	No power sales during off-season

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Net sales	2519.3	2802.1	11.2	2,520.3	2,677.3	6.2	With the higher domestic sugar sales quota & aggressive exports during FY21, we raise our sugar sales volume estimate. Further, the increase in ethanol prices & higher contribution of distillery would increase boost profitability. FY22 numbers would change accordingly
EBITDA	266.3	399.6	50.1	278.7	383.2	37.5	
EBITDA Margin (%)	10.6	14.3	369 bps	11.1	14.3	326 bps	
Adjusted PAT	216.7	270.2	24.7	229.5	262.8	14.5	
EPS (₹)	26.8	33.4	24.6	28.4	32.5	14.3	

Source: Company, ICICI Direct Research

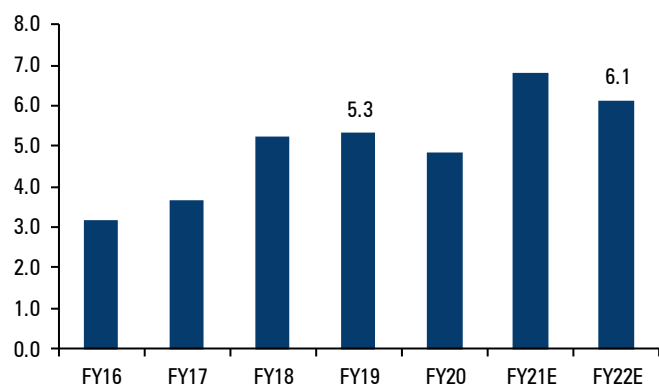
Exhibit 3: Assumptions

	Current					Earlier		Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sugar Sold (in tonne)	524,000	531,000	485,000	679,000	611,100	601,400	553,288	We increase our sugar sales volume estimate on the back of aggressive exports & higher domestic sales quota
Sugar Price (₹ per tonne)	36,442	30,680	32,342	33,000	34,000	33,000	33,300	We increase our sugar price estimate for FY22E
Distillery volume	28,810	48,030	64,000	84,000	85,680	79,200	81,600	We increase our distillery volume estimate with higher utilisation of new capacities & higher contribution of B-heavy molasses
Distillery price (₹ per KL)	43,877	44,705	46,123	51,262	53,289	49,010	49,649	With the increase in ethanol prices, distillery realisation would increase
Power Units sold	35.0	38.0	33.4	31.9	33.0	35.2	36.3	The company is selling more bagasse during off-season, which would result in lower power volumes in FY21E & FY22E
Price per unit (₹ per units)	5.5	5.2	3.7	3.5	3.7	3.5	3.7	

Source: Company, ICICI Direct Research

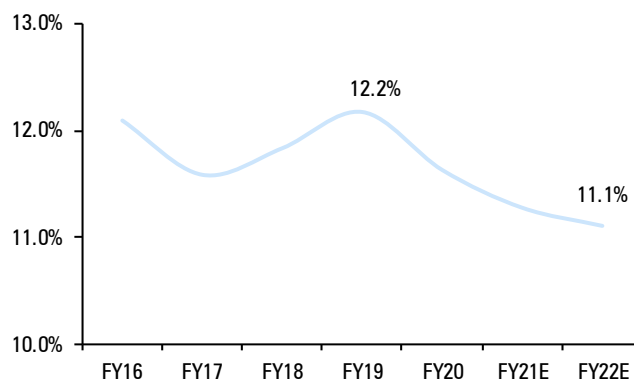
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



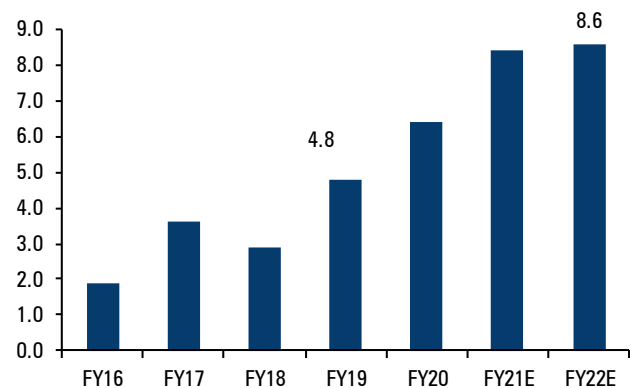
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



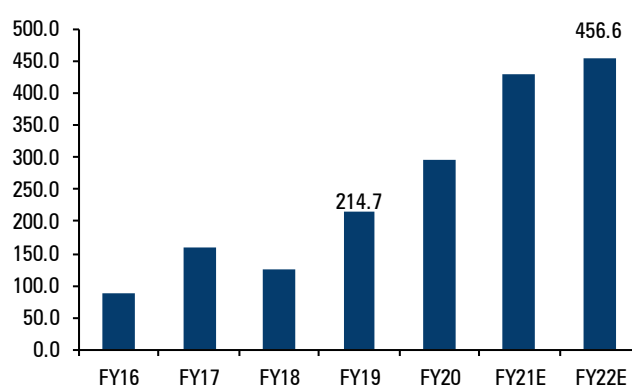
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



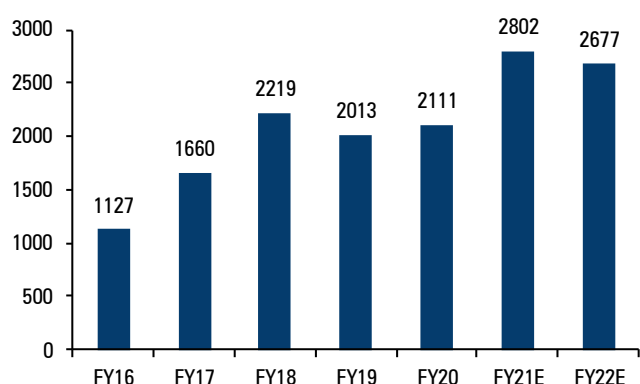
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



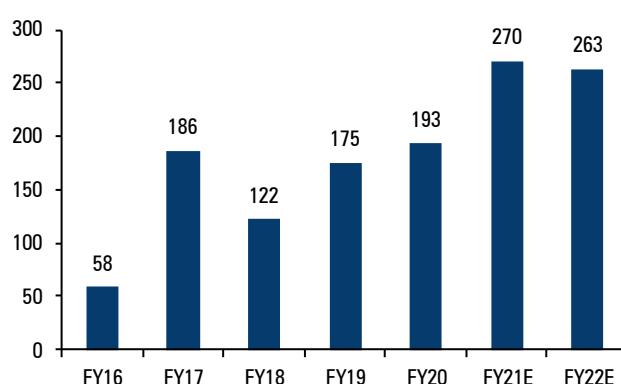
Source: Company, ICICI Direct Research

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 (%)	Adj. EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2018.5	-10.1	21.64	43.2	6.1	7.5	11.4	9.8
FY20	2110.8	4.6	16.95	-21.7	5.5	6.4	9.0	11.8
FY21E	2802.1	32.8	33.39	97.0	3.9	4.2	15.4	15.4
FY22E	2677.3	-4.5	32.47	-2.7	4.0	4.0	13.4	14.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	2,018.5	2,110.8	2,802.1	2,677.3
Growth (%)	-10.1	4.6	32.8	-4.5
Raw Material Expenses	1,408.2	1,407.0	2,069.1	1,956.7
Employee Expenses	118.7	133.6	137.3	149.9
Administrative Expenses	31.1	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	194.8	233.6	196.1	187.4
Total Operating Expenditure	1,752.8	1,774.2	2,402.5	2,294.0
EBITDA	265.7	336.6	399.6	383.2
Growth (%)	13.5	26.7	18.7	-4.1
Depreciation	80.2	57.2	61.0	65.1
Interest	68.6	88.4	43.1	33.3
Other Income	74.7	56.5	55.4	56.5
PBT	116.9	191.0	295.6	284.8
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	16.4	54.3	0.0	0.0
PAT	175.2	193.2	270.2	262.8
Growth (%)	43.2	10.3	39.8	-2.7
EPS (₹)	21.6	23.9	33.4	32.5

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	191.6	247.5	270.2	262.8
Add: Depreciation	80.2	57.2	61.0	65.1
Add: Interest	68.6	88.4	0.0	0.0
(Inc)/dec in Current Assets	-487.5	-226.7	327.0	90.8
Inc/(dec) in Current Liabilities	2.8	1.1	-50.6	25.3
CF from operating activities	-220.4	72.4	607.6	444.1
(Inc)/dec in Investments	73.4	-96.8	-5.0	-5.0
(Inc)/dec in Fixed Assets	-107.0	-90.4	-85.0	-249.0
Others	4.4	7.9	0.6	0.0
CF from investing activities	-29.2	-179.3	-89.3	-254.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	271.5	232.7	-530.0	-150.0
Dividend paid & dividend tax	0.0	-35.1	-36.4	-48.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-52.8	-52.3	0.0	0.0
CF from financing activities	218.7	145.3	-566.4	-198.6
Net Cash flow	-31.0	38.4	-48.1	-8.5
Opening Cash	59.0	28.0	66.5	18.3
Cash with bank	0.5	0.6	0.0	0.0
Closing Cash	28.6	67.1	18.3	9.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	1,515.5	1,502.6	1,736.4	1,950.6
Total Shareholders funds	1,531.7	1,518.8	1,752.5	1,966.8
Total Debt	977.8	1,192.6	662.6	512.6
Long Term Provisions	22.8	29.4	27.4	25.4
Other Non-current Liabilities	117.0	117.7	118.7	119.7
Total Liabilities	2,649.2	2,858.5	2,561.3	2,624.5
Assets				
Gross Block	2,143.7	2,243.7	2,323.7	2,573.7
Less: Acc Depreciation	828.1	885.3	946.3	1,011.4
Net Block	1,315.6	1,352.4	1,377.4	1,562.3
Capital WIP	10.9	6.2	5.2	4.2
Intangible assets	0.5	0.4	0.4	0.4
Non Current Investments	197.3	100.3	105.3	110.3
Other non-current assets	55.9	48.5	48.5	48.5
Current Assets				
Inventory	1,095.1	1,329.2	934.0	818.1
Debtors	203.6	169.8	217.9	223.1
Cash	28.6	67.1	18.3	9.9
Loans & Advances	1.1	0.8	0.8	0.8
Other Current Assets	280.6	363.5	383.5	403.5
Current Liabilities				
Creditors	420.2	402.0	408.9	461.5
Provisions	6.7	5.6	5.6	5.6
Other CL	113.1	172.1	115.5	89.3
Net Current Assets	1,068.9	1,350.8	1,024.6	899.0
Total Assets	2,649.2	2,858.5	2,561.3	2,624.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	21.6	23.9	33.4	32.5
Cash EPS	31.5	30.9	40.9	40.5
BV	189.2	187.6	216.5	243.0
DPS	0.0	3.6	4.5	6.0
Cash Per Share	102.3	109.4	116.9	125.0
Operating Ratios (%)				
EBITDA Margin	13.2	15.9	14.3	14.3
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	8.7	6.5	9.6	9.8
Inventory days	198.6	229.8	121.7	111.5
Debtor days	36.9	29.4	28.4	30.4
Creditor days	76.2	69.5	53.3	62.9
Return Ratios (%)				
RoE	11.4	9.0	15.4	13.4
RoCE	9.8	11.8	15.4	14.3
Valuation Ratios (x)				
P/E	6.1	5.5	3.9	4.0
EV / EBITDA	7.5	6.4	4.2	4.0
EV / Net Sales	1.0	1.0	0.6	0.6
Market Cap / Sales	0.5	0.5	0.4	0.4
Price to Book Value	0.7	0.7	0.6	0.5
Solvency Ratios				
Debt/EBITDA	3.7	3.5	1.7	1.3
Debt / Equity	0.6	0.8	0.4	0.3
Current Ratio	3.6	4.2	3.2	2.8
Quick Ratio	1.1	1.2	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Avadh Sugar (AVASUG)	184	195	Hold	362	44.3	55.2	60.5	4.1	3.3	3.0	7.0	5.8	4.7	0.6	0.5	0.4	10.6	12.3	13.3
Balrampur Chini (BALCHI)	152	210	Buy	3,150	23.6	26.5	30.2	6.4	5.7	5.0	6.6	4.7	4.2	1.3	1.2	1.1	16.1	21.2	22.3
Dhampur Sugar (DHASUG)	151	175	Buy	950	32.5	38.6	43.3	4.6	3.9	3.5	7.0	4.3	3.3	0.7	0.6	0.5	10.4	15.4	17.4
Dwarkesh sugar (DWWASUG)	29	34	Buy	517	3.9	6.7	7.2	7.4	4.3	4.0	8.4	4.8	4.2	1.1	0.9	0.8	9.0	15.9	16.6
Triveni Engineering (TRIENG)	66	90	Buy	1,617	13.5	15.2	17.3	4.9	4.4	3.8	5.4	4.4	3.5	1.2	1.1	0.9	17.6	20.1	22.9
Dalmia Bharat Sugar (DALSUG)	131	180	Buy	1,060	23.9	33.4	32.5	5.5	3.9	4.0	6.4	4.2	4.0	0.7	0.6	0.5	11.8	15.4	14.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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