

High sugar prices, B-heavy ethanol aid profit jump...

About the stock: Avadh Sugar has 31800 TCD sugarcane crushing capacity, 325 KLD distillery capacity and 74 MW saleable power capacity. The company produces 6.0 lakh tonnes (lt) of sugar, 8 crore litre of ethanol & 15 crore units of saleable power.

- Avadh has increased its distillery capacity from 240 KLD to 325 KLD with a capex of ₹ 135 crore. This would help it increase its annual ethanol production to 11 crore litre

Q3FY22 Results: Avadh reported a strong set of results with 70% EBITDA growth.

- Sales up 7.2% to ₹ 746.5 crore, driven by high sugar & ethanol realisation
- EBITDA was at ₹ 73.1 crore, up 70.2% YoY, with margins at 9.8%
- Consequent PAT was at ₹ 28.9 crore (up from ₹ 3.7 crore in base quarter)

What should investors do? Avadh's share price has gone up 3x in the last five years (from ₹ 220 in July 2017 to ₹ 660 in February 2021).

- We expect 75% increase in distillery volumes to boost earnings with a CAGR of 42.5% during FY21-24E
- We continue to maintain our BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 970, valuing the business at 2x FY23 BV.

Key triggers for future price performance:

- The company has commissioned 80 KLD with a capex of ₹ 135 crore, which has increased its annual distillery capacity to 11 crore. Avadh would be maximising B-heavy & sugarcane juice ethanol production
- Sugar inventory has come down from 14.5 MT in September 2019 to 8.2 MT in September 2021, which would further come down to below 7 MT by September 2022. This would move sugar prices to ₹ 37/kg
- With the inventory liquidation in the next one year and boost in profitability, the company would be able to de-leverage its balance sheet. We expect debt reduction of ₹ 540 core between FY21 and FY24E

Alternate Stock Idea: We also like Dwarikesh Sugar in our sugar coverage.

- The company is one of the most efficient companies with highest sugar recovery & abundant sugarcane availability. It is increasing its distillery capacity to 3x in the next three years
- We value the stock at ₹ 135/share with a BUY recommendation



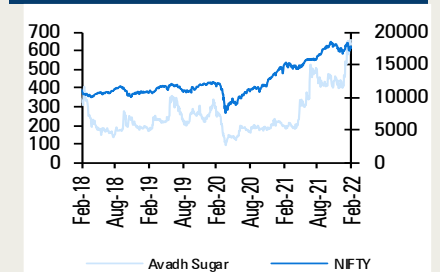
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,320.5
Total Debt (FY21)	1,215.1
Cash and Investments (FY21)	6.9
EV	2,528.6
52 week H/L (₹)	684 / 172
Equity capital	20.0
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	60.4	60.4	60.4	60.4
FII	0.0	0.6	1.0	0.7
DII	0.3	0.3	0.3	0.0
Others	39.3	38.7	38.3	38.9

Price Chart



Recent event & key risks

- The company has expanded its distillery capacity by 80 KLD taking total distillery capacity to 325 KLD
- Key Risk:** (i) Any diversion in government policy regarding ethanol blending programme (ii) Significant dip in sugar recovery or sugarcane availability

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Key Financial Summary

Key Financials	FY20	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	2559.4	2710.5	2662.7	2833.3	2847.6	1.7%
EBITDA	261.4	259.3	337.5	396.9	422.0	17.6%
EBITDA Margin %	10.2	9.6	12.7	14.0	14.8	
Net Profit	88.6	77.6	136.2	198.9	224.3	42.5%
EPS (₹)	44.31	38.79	68.11	99.44	112.17	42.5%
P/E	14.9	17.0	9.7	6.6	5.9	
RoNW %	15.0	11.7	17.2	20.3	18.9	
RoCE (%)	10.6	11.5	15.4	18.6	19.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY22 Results: Surge in sugar realisation, sugarcane diversion towards B-heavy ethanol & de-leveraging balance sheet driving profitability growth

- Consolidated sales witnessed growth of 7.2% led by strong 8.1% growth in sugar segment & 9.8% growth in distillery segment. However, co-generation sales dipped 10.8% due to late start of the crushing season
- The growth in sugar business was driven by 12% increase in sugar realisation to ₹ 35.5/kg. Sugar volumes were down 3.7% to 1.68 lt due to lower allocation of domestic sales quota. The company received 1.3 lt of sugar sales quota in Q3FY22 against 1.75 lt in corresponding quarter. It also exported 0.38 lt of sugar during the quarter. The company is holding sugar inventories of 1.78 lt as on December 2021 valued at ₹ 33/kg (our estimate)
- Distillery sales growth was boosted by 19.6% jump in ethanol realisation to ₹ 57.7/litre. The company is only producing B-heavy ethanol with the aim to maximise sugar sacrifice to reduce sugar inventories. Distillery volumes was down 8.2% to 1.8 crore litre due to high base (base quarter sales was high due to spillover volumes from previous quarter)
- Co-generation sales volume dipped from 5.16 crore units (average realisation of ₹3.02/unit) to 3.91 crore units at average realisation of ₹ 3.05/unit in Q3FY22
- The company expanded its distillery capacity by 80 KLD to 325 KLD, which would result in 11 crore litre of ethanol production on a full year basis. We estimate ethanol volume of 8.25 crore litre in FY22E, 10.7 crore litre by FY23E and 10.9 crore litre by FY24E
- Total debt of the company came down by ₹ 304 crore in the last one year. Considering the farmer's payment, it has been able to reduce its total liability by ₹ 609 crore in the similar period
- Avadh crushed 16.49 lt sugarcane during the quarter, which was 6.8% lower due to the late start of the crushing season. We believe the company would be able to crush 52 lt in FY22E, which would move to its usual run rate up to 57 lt in FY23E
- Sugar recoveries were higher by 9 bps despite higher diversion towards B-heavy ethanol. We believe gross recoveries would be higher by 15-20 bps (our estimate). The company produced 1.56 lt of sugar during the quarter
- Avadh is increasing its operational efficiency by undertaking various energy saving measures at its Seohara & Rosa Plant, which would result in considerable savings in bagasse usage for captive power
- Operating profit witnessed growth of 70.2% to ₹ 73.1 crore led by sharp increase in sugar prices (moved up from ₹ 33/kg in July 2021 to ₹ 37/kg October 2021) and higher proportion of B-heavy ethanol. Interest cost came down from ₹ 26.4 crore to ₹ 16.2 crore, mainly on account of liquidation of inventories & reduction in working capital debt. Net profit grew from ₹ 3.7 crore in Q3FY21 to ₹ 28.9 crore during the quarter led by higher operating profit & reduction in interest costs
- Sugar industry has already contracted for 4.5-5.0 million tonnes (MT) of sugar in the current (2021-22) sugar season. We believe the industry would be able to export 6-7 MT tonnes of sugar in the current season. Considering the sugar production of 32 MT (after ethanol diversion), 27 MT consumption & above mentioned exports, sugar inventories are expected to come down below 7 MT. This would push up sugar prices to ₹ 36-38/kg in the next three months. Our average sugar realisation estimate for FY23E & FY24E is ₹ 35.1/kg & ₹ 35.6/kg, respectively

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	439	600	Buy	9214	-3.2	12.8	31.6	36.6	14.8	15.8	19.6	21.4	19.2	17.0	12.9	9.5	3.6	3.2	2.9	2.5	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALSUG)	455	610	Buy	3682	39.9	18.2	11.8	18.5	17.6	19.1	19.6	19.3	13.6	11.5	10.3	8.7	1.7	1.7	1.5	1.3	13.3	14.2	15.3	16.3
Triveni Engineering (TRIENG)	285	350	Buy	6895	-9.9	48.9	20.2	23.3	11.9	14.6	15.4	17.2	23.4	15.7	13.1	10.6	4.4	3.9	3.3	2.8	19.4	19.6	23.5	26.4
Dwarikesh sugar (DWASUG)	98	135	Buy	1846	24.5	64.8	19.9	40.0	10.9	13.7	15.4	18.8	20.2	12.2	10.2	7.3	3.0	2.4	2.0	1.7	14.4	21.7	22.0	29.1
Avadh Sugar (AVASUG)	660	970	Buy	1320	-12.4	75.6	46.0	12.8	9.6	12.7	14.0	14.8	17.0	9.7	6.6	5.9	2.0	1.7	1.3	1.1	11.5	15.4	18.6	19.3
Dhampur Sugar (DHASUG)	408	430	Buy	2712	5.8	24.4	17.4	12.6	11.0	13.9	13.6	13.7	11.9	9.6	8.1	7.2	1.5	1.3	1.2	1.0	14.8	15.3	16.8	18.2

Source: Company, ICICI Direct Research

Avadh Sugar has been a major beneficiary of the increase in global as well as domestic sugar prices. The company was a laggard in sugar exports in previous seasons. However, it has been able to utilise the opportunity of higher global raw sugar prices to aggressively export surplus sugar inventory during the current sugar season. Moreover, it has increased its distillery capacity from 240 KLD to 325 KLD. With this expansion, the company would be able to produce ~11 crore litre of ethanol in FY23. Aggressive exports & sugarcane diversion towards ethanol would lead to significant reduction in inventories and, in turn, de-leveraging of balance sheet. We believe interest cost reduction would result in splendid profit growth in next two years. We remain positive on the sugar sector, in general, and Avadh Sugar, in particular. We maintain our BUY recommendation on the stock with a target price of ₹ 970/share (earlier: ₹ 680).

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Operating Income	746.5	696.3	7.2	619.6	20.5	Net sales witnessed growth of 7.2% on the back of 8.1% growth in sugar segment & 9.8% growth in distillery segment
Other Operating Income	0.0	0.0	NC	0.0	NC	
Raw Material Expenses	587.2	564.2	4.1	474.5	23.8	
Employee Expense	27.1	25.9	4.6	21.6	25.6	
Other operating Expenses	59.2	63.3	-6.5	48.7	21.5	
EBITDA	73.1	42.9	70.2	74.8	-2.4	Operating profit grew 70.2% on the back of 11.6% jump in sugar realisation & 19.6% increase in distillery realisation
EBITDA Margin (%)	9.8	6.2	362 bps	12.1	-229 bps	Operating margins improved due to increasing sugar prices & higher proportion of B-heavy ethanol
Depreciation	13.0	12.7	2.3	13.0	0.2	
Interest	16.2	26.4	-38.8	24.1	-32.9	With inventory reduction, working capital debt also came down, resulting in 38.8% drop in interest cost
Other Income	0.5	3.6	-85.0	1.5	-63.3	
PBT	44.4	7.4	503.4	39.2	13.3	
Tax Outgo	15.6	3.6	NC	14.0	11.3	
PAT	28.9	3.7	674.5	25.2	NC	Net profit grew from ₹ 3.7 crore to ₹ 28.9 crore on the back of higher operating profit & lower interest cost
Key Metrics						
Sugar sales volume (in tonnes)	1.7	1.8	-3.7	1.4	22.3	Sugar volumes dipped due to lower allocation of domestic sale quota
Domestic Sugar realisation (₹ per kg)	35.5	31.8	11.6	34.2		With industry wide inventory reduction, sugar prices moved up sharply after August 2021
Distillery volumes (in crore litre)	1.8	2.0	-8.2	2.3	-22.7	Distillery volumes dipped given base quarter ethanol volumes were higher due to spillover volumes from Q2FY21
Distillery realisation (₹ per litre)	57.7	48.3	19.6	57.6	0.2	Distillery realisation moved up by 19.6% as the company is only producing B-heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	change	Old	New	change	Old	New	change	
Net sales	2656.7	2662.7	0.2	2,827.3	2833.3	0.2	2,841.6	2847.6	0.2	Slight change in our realisation estimates
EBITDA	336.0	337.5	0.4	391.6	396.9	1.3	416.7	422.0	1.2	
EBITDA Margin (%)	12.6	12.7	3 bps	13.9	14.0	16 bps	14.7	14.8	15 bps	
PAT	132.7	136.2	2.6	191.3	198.9	4.0	218.7	224.3	2.6	Given aggressive inventory liquidation, we estimate lower debt levels and, hence, lower interest cost resulting in change in our earnings estimates
EPS (₹)	66.4	68.1	2.6	95.7	99.4	4.0	109.3	112.2	2.6	

Source: ICICI Direct Research

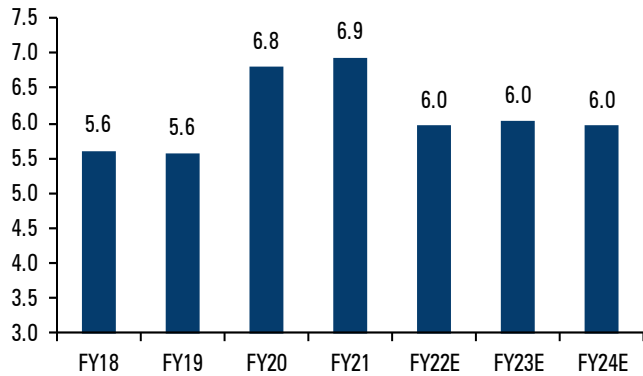
Exhibit 4: Assumptions

	Current						Earlier			
	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Sugar Sold (in tonne)	556,500	679,600	692,800	595,808	601,766	595,748	595,808	601,766	595,748	
Sugar Price (₹ per tonne)	30,696	29,962	31,720	34,600	35,100	35,600	34,600	35,000	35,500	Slight change in our realisation estimates
Distillery volume (in cr litre)	5.8	4.8	6.2	8.3	10.7	10.9	8.3	10.7	10.9	
Distillery price (₹ per KL)	43.7	49.4	55.4	58.0	58.6	58.6	58.0	58.6	58.6	
Power Units sold	19.0	17.6	14.8	15.5	15.7	15.8	15.5	15.7	15.8	
Price per unit (₹ per units)	5.0	2.9	3.0	3.1	3.2	3.2	3.1	3.2	3.2	

Source: ICICI Direct Research

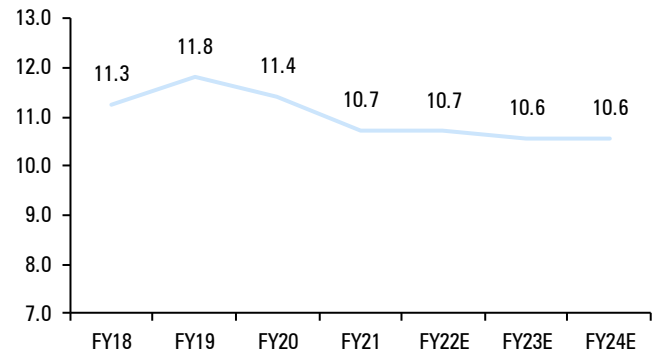
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



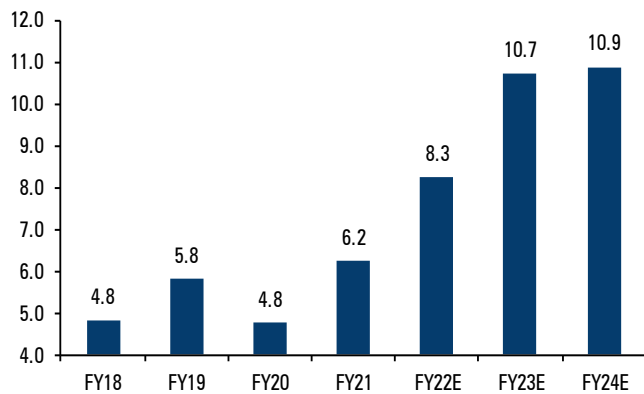
Source: ICICI Direct Research, Company

Exhibit 6: Reduction in sugar recovery rate after higher proportion of sugarcane diversion towards B-heavy ethanol



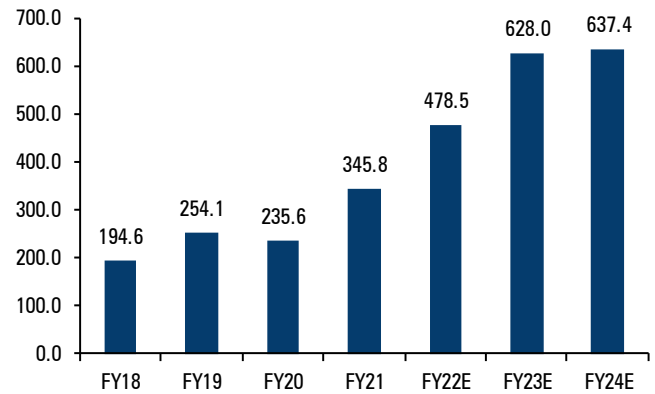
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



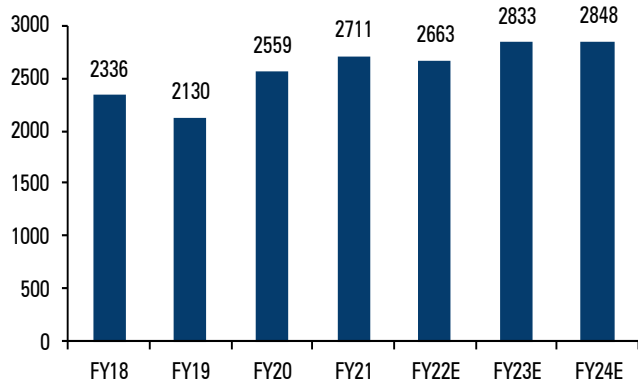
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



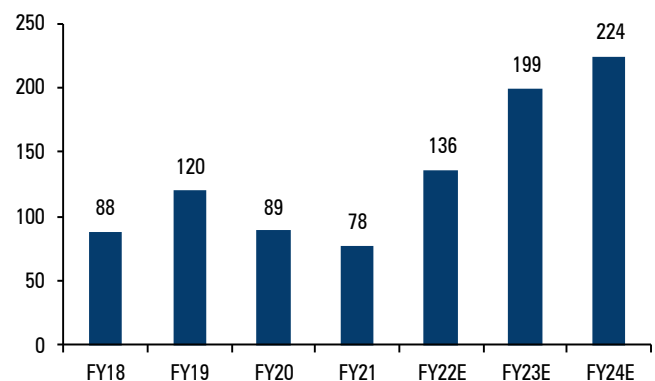
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Adjusted PAT trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	2710.5	5.9	38.8	-12.4	17.0	9.7	11.7	11.5
FY22E	2662.7	-1.8	68.1	75.6	9.7	7.0	17.2	15.4
FY23E	2833.3	6.4	99.4	46.0	6.6	5.4	20.3	18.6
FY24E	2847.6	0.5	112.2	12.8	5.9	4.6	18.9	19.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Income	2,710.5	2,662.7	2,833.3	2,847.6
Growth (%)	5.9	-1.8	6.4	0.5
Raw Material Expenses	2,127.7	2,005.3	2,099.2	2,078.2
Employee Expenses	97.3	100.6	107.7	116.7
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	226.2	219.4	229.5	230.7
Total Operating Expenditure	2,451.2	2,325.2	2,436.4	2,425.6
EBITDA	259.3	337.5	396.9	422.0
Growth (%)	-0.8	30.1	17.6	6.3
Depreciation	48.3	55.5	59.2	64.0
Interest	116.0	87.1	76.5	62.8
Other Income	6.4	4.5	4.7	4.8
PBT	95.0	194.9	261.2	295.2
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	23.8	63.2	67.0	75.6
PAT	77.6	136.2	198.9	224.3
Growth (%)	-12.4	75.6	46.0	12.8
EPS (₹)	38.8	68.1	99.4	112.2

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	101.4	136.2	198.9	224.3
Add: Depreciation	48.4	55.5	59.2	64.0
Add: Interest	116.0	0.0	0.0	0.0
(Inc)/dec in Current Assets	268.3	254.5	-65.9	41.3
Inc/(dec) in Current Liabilities	-49.3	-124.3	59.2	53.9
CF from operating activities	465.5	321.9	251.4	383.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-110.9	-141.5	-14.4	-184.0
Others	2.9	2.0	0.0	0.0
CF from investing activities	-108.0	-139.4	-14.4	-184.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-53.0	-160.0	-210.0	-170.0
Dividend paid & dividend tax	-8.0	-8.0	-12.0	-16.0
Inc/(dec) in Sec. premium	-119.1	0.0	0.0	0.0
Others	-177.6	0.0	0.0	0.0
CF from financing activities	-358.0	-168.0	-222.0	-186.0
Net Cash flow	-0.5	14.5	15.0	13.6
Opening Cash	5.4	4.9	19.3	34.3
Cash with bank	0.0	0.0	0.0	0.0
Closing Cash	4.9	19.3	34.3	47.9

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	20.0	20.0	20.0	20.0
Reserve and Surplus	645.7	774.0	960.8	1,169.2
Total Shareholders funds	665.8	794.0	980.8	1,189.2
Total Debt	1,215.1	1,055.1	845.1	675.1
Long Term Provisions	4.0	4.0	4.0	4.0
Other Non-current Liabilities	12.4	12.4	12.4	12.4
Total Liabilities	1,897.3	1,865.5	1,842.3	1,880.7
Assets				
Gross Block	1,309.6	1,459.6	1,479.6	1,599.6
Less: Acc Depreciation	225.2	289.2	354.0	354.0
Net Block	1,084.4	1,170.4	1,125.6	1,245.6
Capital WIP	14.0	14.0	14.0	14.0
Intangible assets	0.5	0.5	0.5	0.5
Non Current Investments	15.2	15.2	15.2	15.2
Other non-current assets	7.7	7.7	7.7	7.7
Current Assets				
Inventory	1,350.6	1,072.5	1,141.2	1,107.4
Debtors	55.1	78.8	76.0	68.4
Cash	6.9	19.3	34.3	47.9
Loans & Advances	0.5	0.5	0.5	0.5
Other Current Assets	113.9	113.9	113.9	113.9
Current Liabilities				
Creditors	539.5	365.2	394.4	398.4
Provisions	6.1	6.1	6.1	6.1
Other CL	206.0	256.0	286.0	336.0
Net Current Assets	775.5	657.7	679.3	597.7
Total Assets	1,897.3	1,865.5	1,842.3	1,880.7

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	38.8	68.1	99.4	112.2
Cash EPS	62.9	95.8	129.0	144.2
BV	332.9	397.0	490.4	594.6
DPS	4.0	4.0	6.0	8.0
Cash Per Share	112.6	144.6	177.0	177.0
Operating Ratios (%)				
EBITDA Margin	9.6	12.7	14.0	14.8
PBT / Net Sales	3.7	7.5	9.4	10.5
PAT Margin	2.9	5.1	7.0	7.9
Inventory days	181.9	147.0	147.0	141.9
Debtor days	7.4	10.8	9.8	8.8
Creditor days	72.6	50.1	50.8	51.1
Return Ratios (%)				
RoE	11.7	17.2	20.3	18.9
RoCE	11.5	15.4	18.6	19.3
Valuation Ratios (x)				
P/E	17.0	9.7	6.6	5.9
EV / EBITDA	9.7	7.0	5.4	4.6
EV / Net Sales	0.9	0.9	0.7	0.7
Market Cap / Sales	0.5	0.5	0.5	0.5
Price to Book Value	2.0	1.7	1.3	1.1
Solvency Ratios				
Debt/EBITDA	4.7	3.1	2.1	1.6
Debt / Equity	1.8	1.3	0.9	0.6
Current Ratio	2.6	2.8	2.5	2.2
Quick Ratio	0.3	0.4	0.4	0.3

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	439	600	Buy	9,214	22.8	25.8	33.9	46.3	19.2	17.0	12.9	9.5	14.6	13.1	10.7	7.7	3.6	3.2	2.9	2.5	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALSUG)	455	610	Buy	3,682	33.4	39.5	44.1	52.3	13.6	11.5	10.3	8.7	9.4	8.6	7.1	6.3	1.7	1.7	1.5	1.3	13.3	14.2	15.3	16.3
Triveni Engineering (TRIENG)	285	350	Buy	6,895	12.2	18.1	21.8	26.9	23.4	15.7	13.1	10.6	13.8	12.5	10.1	8.3	4.4	3.9	3.3	2.8	19.4	19.6	23.5	26.4
Dwarikesh sugar (DWASUG)	98	135	Buy	1,846	4.9	8.0	9.6	13.4	20.2	12.2	10.2	7.3	11.4	7.5	6.6	4.6	3.0	2.4	2.0	1.7	14.4	21.7	22.0	29.1
Dhampur Sugar (DHASUG)	408	430	Buy	2,712	34.4	42.7	50.2	56.5	11.9	9.6	8.1	7.2	7.2	6.6	5.5	4.7	1.5	1.3	1.2	1.0	14.8	15.3	16.8	18.2
Avadh Sugar (AVASUG)	660	970	Buy	1,320	38.8	68.1	99.4	112.2	17.0	9.7	6.6	5.9	9.7	7.0	5.4	4.6	2.0	1.7	1.3	1.1	11.5	15.4	18.6	19.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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