

Lower gross recovery a drag on margins...

About the stock: Avadh Sugar has 31800 TCD sugarcane crushing capacity 325 KLD distillery capacity & 74 MW saleable power capacity. The company produces 5.7 lakh tonnes (lt) of sugar, 9.3 crore litre of ethanol & 16 crore units of saleable power.

- Avadh has annual ethanol capacity of 11 crore litres. It is producing ethanol through sugarcane juice & B-heavy route, which has helped it divert 1 lakh tonnes of equivalent sugar towards ethanol in FY23

Q4FY23 Results: Avadh reported strong results with 64.5% growth in EBITDA.

- Sales was up 11.5% to ₹ 846.2 crore led by 16.2% growth in distillery sales
- EBITDA grew 64.5% to ₹ 139.7 crore with EBITDA margin of 16.5%
- Consequently the company posted net profit of ₹ 79.1 crore, growth of 54%

What should investors do? Avadh's share price increased by 4.3x in the last five years (from ₹ 178 in May 2018 to ₹ 516 in May 2022).

- We expect high sugar inventory of 2.5 lakh tonnes to boost profitability in the next two quarters. However, long term growth visibility is absent due to lack of distillery capacity addition
- We downgrade the stock from BUY to **HOLD**

Target Price and Valuation: We value the stock at ₹ 585, valuing the business at 8x FY25 PE

Key triggers for future price performance:

- The company is holding 2.5 lakh tonnes of sugar valued at ₹ 32.1/kg as on March 2023. Despite a decline in recovery by ~30 bps and increase in cost of production by ₹ 1/kg in the 2022-23 season, Avadh would be able to earn ₹ 2.5/kg margin in the sugar segment FY24
- Sugar inventory in the country is the lowest in the last five years. This would keep domestic sugar prices firm above ₹ 36/kg
- Avadh is not undertaking any major distillery capacity addition in the medium term. This hinders long term growth visibility
- The company would be able to reduce debt by ₹ 260 crore with cash flow generation in the next two years

Alternate Stock Idea: We like Dalmia Bharat Sugar in our sugar coverage.

- It is the fastest in utilising B-heavy & sugarcane juice to produce ethanol. Distillery volumes to grow 1.8x to 22 crore litre by FY24. The company is aggressively exporting sugar & utilising higher global white sugar prices
- We value the stock at ₹ 490/share with a BUY recommendation



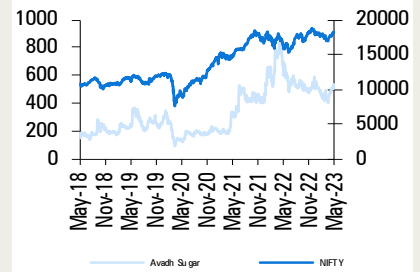
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,032.2
Total Debt (FY23)	1,067.2
Cash and Investments (FY23)	4.6
EV	2,094.8
52 week H/L (₹)	714 / 388
Equity capital	20.0
Face value (₹)	10.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Mar-23
Promoter	60.4	60.4	60.4	60.4
FII	2.3	2.2	2.1	1.9
DII	0.3	0.3	0.4	0.3
Others	37.0	37.1	37.1	37.4

Price Chart



Recent event & key risks

- Avadh is holding 2.5 lakh tonnes of inventory valued at ₹32.1/kg
- Key Risk:** (i) Any significant increase in sugarcane SAP next season (ii) Continued adverse impact on sugarcane yields or sugar recovery in 2022-23 sugar season

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Key Financial Summary

Key Financials	FY21	FY22	FY23	CAGR (FY18-23E)	FY24E	FY25E	CAGR (FY23-25E)
Total Operating Income	2710.5	2743.7	2798.0	3.7%	2818.3	2919.8	2.2%
EBITDA	259.3	302.8	254.8	-1.1%	302.8	330.8	14.0%
EBITDA Margin %	9.6	11.0	9.1		10.7	11.3	
Net Profit	77.6	124.4	100.3	2.6%	130.2	155.8	24.6%
EPS (₹)	38.8	62.2	50.2	2.6%	65.1	77.9	24.6%
P/E	13.3	8.3	10.3		7.9	6.6	
RoNW %	11.7	15.4	11.3		13.0	13.8	
RoCE (%)	11.5	12.5	10.6		12.9	14.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4FY23 Results: Low sugar recovery to increase cost of production but sugar prices move up by ₹ 2/kg

- Avadh witnessed revenue growth of 11.5% to ₹ 846.2 crore led by 12.8% growth in sugar sales & 16.2% growth in distillery sales
- The 11.5% growth in sugar segment was driven by 1% volume growth & 3.7% sugar realisation growth. The company sold 1.7 lakh tonnes of sugar at an average realisation of ₹ 34.1/kg. On a full year basis, sugar sales were down by 7.6% to 5.7 lakh tonnes & average sugar realisation was up by 2.7% to ₹34.8 / kg. The reduction in sugar volumes were mainly due to higher sugarcane diversion towards ethanol
- Distillery sales growth of 16.2% was led by 11.2% ethanol volume growth & 4.3% distillery realisation growth. Avadh sold 2.5 crore litres of ethanol with the average realisation of ₹64.3/litre in Q4. Distillery sales for FY23 was up by 9.3% to 9 crore litres & average distillery realisation was up by 5.8% to ₹62.2 / litre mainly due to higher diversion towards sugarcane juice ethanol
- Co-generation (power) sales grew by 26.6% to ₹97.4 crore led by 27.5% growth in power volumes & 2.6% growth in power tariffs. The company sold 9.1 crore units of power with average tariff of ₹3.1 / unit. Power sales volumes were higher by 18.6% to 16.1 crore litres with average tariff was up by 3.9% to ₹3.2 / unit for FY23. Higher sugarcane crushing during the year led to increase in bagasse availability & higher power volumes
- The company crushed 56.9 lakh tonnes of sugar in FY23 with net recovery of 10.2%. We believe the company diverted 8% sugarcane towards juice ethanol & 81% sugarcane towards B-heavy ethanol during the year. The company is holding 2.5 lakh tonnes of sugar valued at ₹32.1 /kg as on March 2023 as against 2.9 lakh tonnes of sugar valued at ₹32.2 / kg
- In last one year, the company reduced its debt by ₹146 crore to ₹1067 crore. This includes term loan of ₹437 crore & ₹630 crore of working capital debt. The company generated free cash flow of ₹230 crore in FY23. We expect debt reduction of ₹260 crore in next two years to ₹ 807 crore by FY25
- Country wise sugar production is estimated at 32.7 MT in 2022-23 sugar season after 4.0 MT of sacrifice for ethanol diversion. Considering sugar consumption at 27.7 MT & export of 6.3 MT, Sugar inventory is expected to come down by at least 1 MT by September-2023

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	M Cap (₹ Cr)	EPS growth (%)				EBITDA Margin (%)				PE (x)			P/B (x)			RoCE (%)						
				FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E					
Balrampur Chini (BALCHI)	414	435	Buy	8444	-0.1	-31.9	84.2	18.0	14.4	11.3	16.2	16.6	18.2	25.9	13.3	11.3	3.1	2.9	2.5	2.3	15.3	10.1	19.1	20.5
Dalmia Bharat Sugar (DALISUG)	370	490	Buy	2995	10.0	-13.3	33.8	17.1	14.8	14.6	16.4	17.2	10.1	11.6	8.7	7.4	1.3	1.3	1.2	1.1	12.3	12.8	16.0	16.9
Triveni Engineering (TRIFENG)	278	360	Buy	6731	45.9	-5.1	52.6	24.3	14.8	10.0	16.2	17.5	15.7	16.5	10.8	8.7	3.7	2.4	2.3	2.0	15.8	14.6	19.3	25.0
Dwarikesh sugar (DWARISUG)	93	115	Buy	1744	69.6	-32.5	38.9	29.3	14.7	10.4	13.5	13.7	11.2	16.6	12.0	9.3	2.6	2.3	1.9	1.7	20.6	16.0	20.8	22.2
Dhampur Sugar (DHASUG)	256	340	Buy	1699	0.5	9.7	13.2	28.0	15.3	12.3	13.7	15.1	11.8	10.7	9.5	7.4	2.0	1.7	1.5	1.3	13.9	14.5	15.9	18.5
Avadh Sugar (AVASUG)	516	585	Hold	1032	60.3	-19.4	29.8	19.7	11.0	9.1	10.7	11.3	8.3	10.3	7.9	6.6	1.3	1.2	1.0	0.9	12.5	10.6	12.9	14.6

Source: Company, ICICI Direct Research

UP based sugar companies have witnessed mixed trend in gross recovery in 2022-23 sugar season. We believe gross recovery for Avadh is down by ~30 bps in current season, which would increase the cost of production by ₹1/kg. However, sugar prices have moved up by ₹2/kg in last one months mainly due to expected 1 MT reduction in sugar inventory in the country. Sugar prices are expected to remain firm at least till the next sugar season starts in November-2023. We believe higher sugar prices would off-set increase in cost of production for the company. With 9 crore litres of ethanol production, the company has not being able to scale up ethanol production to its full capacity of 11 crore litres. Moreover, the company is not increasing distillery capacity beyond 325 KLD. Lower gross recovery & absence of any distillery capex makes us cautious of long-term growth outlook. We assign HOLD recommendation to the stock with the revised target price of ₹ 585 / share (earlier: ₹ 750).

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	846.2	758.7	11.5	674.5	25.4	Net sales witnessed a growth of 11.5% driven by 12.8% growth in sugar sales & 16.2% growth in distillery revenue
Other Operating Income	0.0	0.0	0.0	0.0	0.0	
Raw Material Expenses	603.7	570.2	5.9	535.3	12.8	High gross margin mainly due to increase in ethanol volumes & stable sugarcane costs in 2022-23 season
Employee Expense	32.2	28.7	12.3	28.4	13.6	
Other operating Expenses	70.6	74.9	-5.7	60.5	16.6	
EBITDA	139.7	84.9	64.5	50.4	177.3	Operating profit growth was led by higher ethanol sales & lower overhead spends
EBITDA Margin (%)	16.5	11.2	532 bps	7.5	904 bps	
Depreciation	13.2	12.6	5.5	13.0	2.0	
Interest	17.7	19.7	-9.9	11.6	53.0	Interest cost was lower on account of reduction in debt
Other Income	1.9	1.6	13.6	1.9	-1.5	
PBT	110.6	54.4	103.5	27.7	299.1	
Tax Outgo	31.5	3.0	946.6	10.0	215.8	
PAT	79.1	51.3	54.0	17.7	NC	Led by higher operating profit, net profit grew by 54%
Key Metrics						
Sugar sales volume (in tonnes)	1.7	1.7	0.8	1.4	20.2	Sugar sales volume was flat due to low domestic sales quota, which was off-set by higher exports
Domestic Sugar realisation (₹ per kg)	34.1	32.9	3.7	35.4	-3.7	Sugar realisation was higher by 3.7% due to higher export realisation
Distillery volumes (in crore litre)	2.5	2.2	11.2	1.9	28.0	Distillery volumes were higher by 11.2% during the quarter
Distillery realisation (₹ per litre)	64.3	61.7	4.3	60.8	5.7	Distillery realisation was higher by 4.3% mainly due to higher contribution from ethanol produced from sugarcane juice route

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% change	Old	New	% change	
Net sales	2,933.2	2818.3	-3.9	2,919.8	2919.8	0.0	We cut our suga sales volume estimates for FY24. Introducing FY25 numbers
EBITDA	379.6	302.8	-20.2	330.8	330.8	0.0	We are factoring in lower gross recovery in 2022-23 season & ₹ 150 / tonne increase in sugarcane cost in 2023-24 season
EBITDA Margin (%)	12.9	10.7	-220 bps	11.3	11.3	0 bps	
PAT	200.0	130.2	-34.9	155.8	155.8	0.0	We are estimating higher interest costs. Moreover, income tax rate is also likely to remain 30%
EPS (₹)	100.0	65.1	-34.9	77.9	77.9	0.0	

Source: ICICI Direct Research

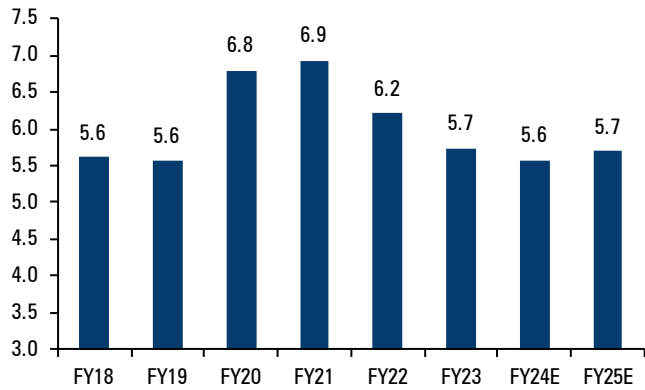
Exhibit 4: Assumptions

	Current					Earlier			
	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY24E	FY25E	
Sugar Sold (in tonne)	6,92,800	6,20,900	5,73,720	5,57,808	5,68,964	6,22,495	568964		We cut down our sugar volume estimate for FY24 mainly due to lower recovery rate
Sugar Price (₹ per tonne)	31,720	34,016	34,830	36,500	37,000	35,200	37000		We increase our sugar realisation estimate given domestic sugar prices have moved up in last one month
Distillery volume (in cr litre)	6.2	8.2	9.3	10.4	10.7	11.0	10.7		We cut our distillery volume estimates slightly
Distillery price (₹ per KL)	55.4	59.0	62.2	63.4	64.0	61.9	64.0		With higher sugarcane juice route ethanol, ethanol realisation would go up
Power Units sold	14.8	14.8	16.1	16.2	16.4	14.9	16.4		We raise our power volume estimate
Price per unit (₹ per units)	3.0	3.1	3.2	3.3	3.4	3.2	3.4		

Source: ICICI Direct Research

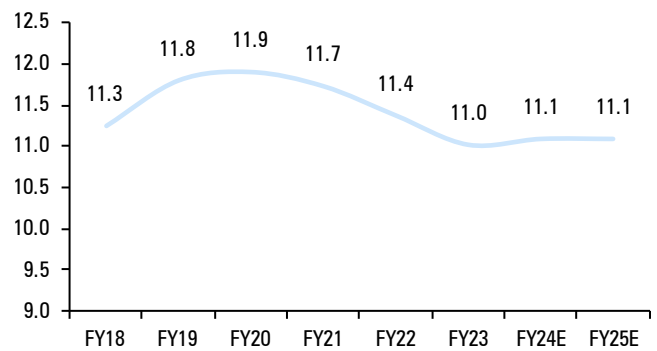
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



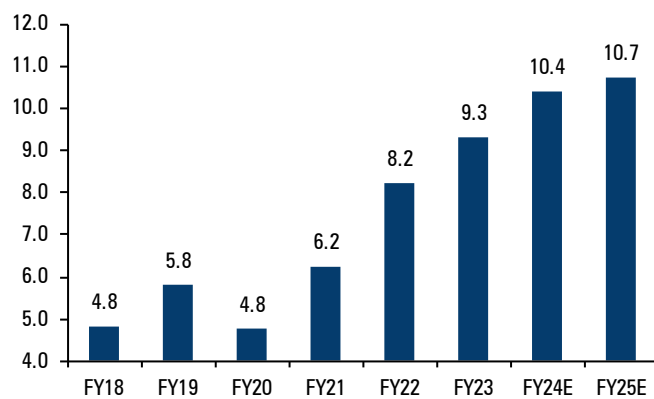
Source: ICICI Direct Research, Company

Exhibit 6: Gross sugar recovery in declining trend



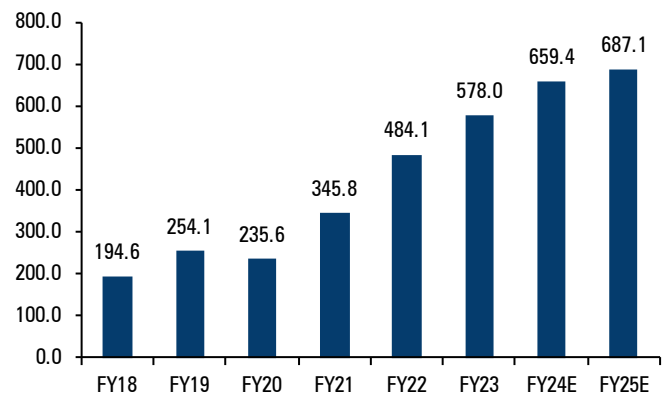
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



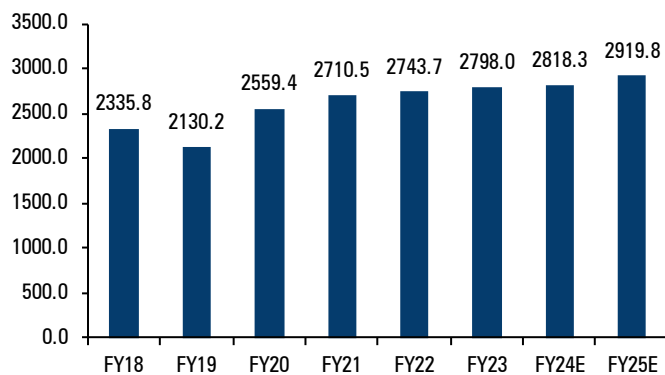
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



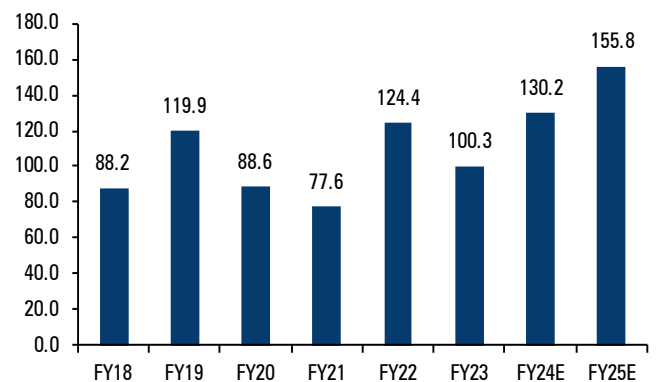
Source: Company, ICICI Direct Research

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 (%)
FY22	2743.7	1.2	62.2	60.3	8.3	7.3	15.4	12.5
FY23	2798.0	2.0	50.2	-19.4	10.3	8.2	11.3	10.6
FY24E	2818.3	0.7	65.1	29.8	7.9	6.5	13.0	12.9
FY25E	2919.8	3.6	77.9	19.7	6.6	5.4	13.8	14.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total Operating Income	2,743.7	2,798.0	2,818.3	2,919.8
Growth (%)	1.2	2.0	0.7	3.6
Raw Material Expenses	2,114.5	2,196.2	2,168.5	2,235.0
Employee Expenses	100.1	120.4	118.0	123.9
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	226.3	226.6	228.9	230.0
Total Operating Expenditure	2,440.8	2,543.2	2,515.5	2,589.0
EBITDA	302.8	254.8	302.8	330.8
Growth (%)	16.8	-15.9	18.8	9.3
Depreciation	51.3	51.1	51.7	51.9
Interest	88.4	69.3	74.6	65.7
Other Income	4.1	9.3	9.4	9.4
PBT	163.1	134.3	176.5	213.2
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	42.8	43.3	55.8	66.8
PAT	124.4	100.3	130.2	155.8
Growth (%)	60.3	-19.4	29.8	19.7
EPS (₹)	62.2	50.2	65.1	77.9

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit/Loss after Tax	167.2	143.6	130.2	155.8
Add: Depreciation	51.3	51.1	51.7	51.9
Add: Interest	88.4	69.3	0.0	0.0
(Inc)/dec in Current Assets	247.8	98.6	-4.7	6.8
Inc/(dec) in Current Liabilities	-206.5	35.4	10.3	60.1
CF from operating activities	313.7	363.6	187.5	274.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-55.5	-133.5	-50.0	-81.9
Others	1.9	9.7	3.0	0.0
CF from investing activities	-53.6	-123.8	-47.0	-81.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	55.3	-94.4	-90.0	-170.0
Dividend paid & dividend tax	-8.0	-20.0	-20.0	-30.0
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-264.3	-238.9	-110.0	-200.0
Net Cash flow	-4.1	0.8	30.5	-7.3
Opening Cash	4.9	0.8	1.6	32.1
Cash with bank	0.0	0.0	0.0	0.0
Closing Cash	0.8	1.6	32.1	24.8

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	20.0	20.0	20.0	20.0
Reserve and Surplus	790.4	871.1	981.3	1,107.1
Total Shareholders funds	810.4	891.2	1,001.3	1,127.1
Total Debt	1,212.8	1,067.2	977.2	807.2
Long Term Provisions	1.7	2.1	2.1	2.1
Other Non-current Liabilities	26.1	41.4	41.4	41.4
Total Liabilities	2,051.1	2,001.8	2,022.0	1,977.8
Assets				
Gross Block	1,353.4	1,492.8	1,542.8	1,572.8
Less: Acc Depreciation	276.5	327.7	379.3	379.3
Net Block	1,076.9	1,165.1	1,163.5	1,193.5
Capital WIP	8.6	13.2	13.2	13.2
Intangible assets	0.5	0.3	0.3	0.3
Non Current Investments	46.8	47.5	47.5	47.5
Other non-current assets	23.5	15.2	15.2	15.2
Current Assets				
Inventory	1,169.7	1,085.0	1,096.0	1,094.9
Debtors	85.7	72.6	66.4	60.6
Cash	3.2	4.6	32.1	24.8
Loans & Advances	0.5	0.5	0.5	0.5
Other Current Assets	15.1	14.2	14.2	14.2
Current Liabilities				
Creditors	310.4	364.5	324.8	334.9
Provisions	7.3	7.1	7.1	7.1
Other CL	61.7	44.8	94.8	144.8
Net Current Assets	894.8	760.5	782.4	708.2
Total Assets	2,051.1	2,001.8	2,022.0	1,977.8

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	62.2	50.2	65.1	77.9
Cash EPS	87.8	75.7	90.9	103.9
BV	405.2	445.6	500.7	563.6
DPS	4.0	10.0	10.0	15.0
Cash Per Share	138.3	163.8	189.7	189.7
Operating Ratios (%)				
EBITDA Margin	11.0	9.1	10.7	11.3
PBT / Net Sales	6.1	5.1	6.6	7.6
PAT Margin	4.5	3.6	4.6	5.3
Inventory days	156	142	142	137
Debtor days	11	9	9	8
Creditor days	41	48	42	42
Return Ratios (%)				
RoE	15.4	11.3	13.0	13.8
RoCE	12.5	10.6	12.9	14.6
Valuation Ratios (x)				
P/E	8.3	10.3	7.9	6.6
EV / EBITDA	7.3	8.2	6.5	5.4
EV / Net Sales	0.8	0.7	0.7	0.6
Market Cap / Sales	0.4	0.4	0.4	0.4
Price to Book Value	1.3	1.2	1.0	0.9
Solvency Ratios				
Debt/EBITDA	4.0	4.2	3.2	2.4
Debt / Equity	1.5	1.2	1.0	0.7
Current Ratio	3.4	2.8	2.8	2.4
Quick Ratio	0.3	0.2	0.2	0.2

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 (x)				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E
Balrampur Chini (BALCHI)	414	435	Buy	8,444	22.8	16.0	31.0	36.6	18.2	25.9	13.3	11.3	13.7	18.8	9.8	8.8	3.1	2.9	2.5	2.3	15.3	10.1	19.1	20.5
Dalmia Bharat Sugar (DALSUG)	370	490	Buy	2,995	36.7	31.9	42.6	49.9	10.1	11.6	8.7	7.4	8.3	8.1	6.1	5.2	1.3	1.3	1.2	1.1	12.3	12.8	16.0	16.9
Triveni Engineering (TRIENG)	278	360	Buy	6,731	17.7	16.8	25.7	31.9	15.7	16.5	10.8	8.7	13.4	13.9	8.9	6.9	3.7	2.4	2.3	2.0	15.8	14.6	19.3	25.0
Dwarikesh sugar (DWASUG)	93	115	Buy	1,744	8.2	5.6	7.7	10.0	11.2	16.6	12.0	9.3	7.5	9.4	7.1	6.2	2.6	2.3	1.9	1.7	20.6	16.0	20.8	22.2
Dhampur Sugar (DHASUG)	256	340	Buy	1,699	21.7	23.8	26.9	34.5	11.8	10.7	9.5	7.4	8.7	7.9	7.1	5.7	2.0	1.7	1.5	1.3	13.9	14.5	15.9	18.5
Avadh Sugar (AVASUG)	516	585	Hold	1,032	62.2	50.2	65.1	77.9	8.3	10.3	7.9	6.6	7.3	8.2	6.5	5.4	1.3	1.2	1.0	0.9	12.5	10.6	12.9	14.6

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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