

## Ethanol volumes, refined sugar exports to boost PAT

**About the stock:** Dalmia Bharat sugar (DBS) is the only sugar company present in UP and Maharashtra. The company has sugar crushing capacity of 39000 TCD (5.5 lakh tonnes pa), distillery capacity of 705 KLD (21 crore litre pa), co-generation capacity of 102 MW & wind power of 16.5 MW (total 30 crore units saleable power).

- The company has expanded its distillery capacity from 8.5 crore litre to 21 crore litre. It would further increase its distillery capacity to 24 crore litre in the next one year through expanding grain based ethanol capacity

**Q2FY23 Results:** DBS posted revenue dip of 20.5% due to lower sugar volumes.

- Revenue de-growth of 20.5% on account of 21.4% decline in sugar sales
- EBITDA was at ₹ 7.3 crore, down 91.6% impacted by high cost of production
- PAT was at ₹ 11.7 crore, down 80.2%; other income was up 60.6%

**What should investors do?** DBS' share price has gone up 2x in the last five years (from ₹ 159 in November 2017 to ₹ 317 in November 2022).

- We expect 36.1% CAGR in distillery revenues, led by ethanol volumes, to boost the company's earnings at 16.1% CAGR during FY22-24E
- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 490, ascribing a multiple of 10x FY24 earnings.

**Key triggers for future price performance:**

- DBS is fastest in utilising B-heavy, sugarcane juice and the grain route to produce ethanol. Distillery capacity to grow 2x to 24 crore litre by FY24
- The company would continue to export high quality refined sugar & utilise higher global refined white sugar prices (current prevailing prices are ₹ 38-₹ 40/kg in rupee) to its benefit. This improves its blended sugar realisation
- DBS is diverting 25-30% of its sugarcane towards ethanol and also aggressively exporting high quality sugar. We believe the company's dependency on domestic sugar sales has come down significantly

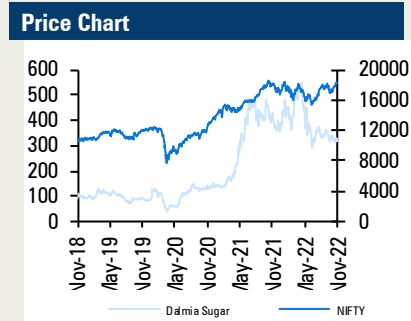
**Alternate Stock Idea:** We also like Triveni Engineering in our coverage universe.

- Triveni is one of the largest sugar companies. It would increase its ethanol volumes from 11.8 crore litre in FY22 to 25 crore litre by FY24 and 31 crore litre in FY25. Distillery sales would contribute 34% to revenues by FY25
- We value the stock at ₹ 380, valuing the business at 14x FY24 PE



Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	2,569.0
Total Debt (FY22)	818.5
Cash and Investments (FY22)	103.9
EV	3,283.6
52 week H/L (₹)	568 / 282
Equity capital	16.2
Face value (₹)	2.0

Shareholding pattern				
(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	74.9	74.9	74.9	74.9
FII	0.9	1.2	1.4	1.2
DII	0.2	0.1	0.1	0.0
Others	23.9	23.9	23.6	23.9



- Recent event & key risks**
- DBS has commissioned 105 KLD grain based distillery and would be further expanding it to 200 KLD in the next one year
  - Key Risk:** (i) Significant fall in global & domestic sugar prices (ii) Reversal in government stance over ethanol blending

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17-22E)	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	2110.8	2685.8	3018.3	12.4%	3132.6	3351.0	5.4%
EBITDA	336.6	471.4	447.7	3.4%	555.3	635.8	19.2%
EBITDA Margin %	15.9	17.6	14.8		17.7	19.0	
Net Profit	193.2	270.3	297.3	9.8%	339.5	400.9	16.1%
EPS (₹)	23.87	33.40	36.74	9.8%	41.95	49.54	16.1%
P/E	13.3	9.5	8.6		7.6	6.4	
RoNW %	9.0	12.6	12.6		14.7	15.2	
RoCE (%)	11.8	13.3	12.3		15.8	17.7	

## Key takeaways of recent quarter

### Q2FY23 Results: Refined sugar exports, ethanol capacity addition to drive earnings, going forward

- Consolidated revenue witnessed de-growth of 20.5% to ₹ 578.9 crore on account of 21.4% decline in sugar sales. Sugar volume was down 25% to 1.11 lakh tonnes but sugar realisation was slightly higher at ₹ 34.9 /kg. The company was holding sugar inventory of 0.5 lakh tonnes (lt) valued at ₹ 33/kg as on September 2022
- Distillery sales were slightly up 1.4% to ₹ 168.2 crore. Distillery volumes were up 5% to 3.16 crore litre. However, we believe distillery realisation would have been down due to inferior mix
- Operating profit saw a sharp dip of 91.6% to ₹ 7.3 crore, mainly on account of higher cost of production due to increase in sugarcane prices and lower recovery rate in the 2021-22 sugar season. Sugar prices were also muted during the quarter despite high festive season demand
- One-time impact of ₹ 5-6 crore (our estimate) towards wage arrears of last three years and increase in levy molasses quota also aggravated the performance in Q2FY23. Net profit was also down 80.2% to ₹ 11.7 crore
- Long term debt was at ₹ 418 crore at a concessional interest rate but the company is holding cash & bank balance of ₹ 572.4 crore as on September 30, 2022
- The company has commissioned 105 KLD grain based distillery at its Jawaharpur plant taking the company's total distillery capacity to 705 KLD. Further, it would be increasing the capacity of grain based distillery from 105 KLD to 200 KLD, which would take its total distillery capacity to 800 KLD by December 2023
- With the commissioning of new capacities, DBS would be able to produce 17 crore litre of ethanol in FY23 and 20-21 crore litre of ethanol in FY24. C-Heavy, B-heavy & Sugarcane Juice ethanol prices have been revised by ₹2.75 / litre, ₹ 1.65 / litre & ₹ 2.16 / litre respectively. Further grain based ethanol prices have also been revised by ₹ 2.62 / litre for 2022-23 procurement year
- DBS is likely to see 4% increase in sugarcane crushing to 55 lt with improvement in sugar recovery rate given last year sugar recoveries were adversely impacted by unseasonal rains & extreme weather conditions
- The company would be diverting ~11% of its sugarcane towards ethanol through sugarcane juice route, ~75% towards B-heavy ethanol and the rest towards C-heavy ethanol route for the levy molasses obligation
- DBS has received 98,076 tonnes of sugar exports quota for 2022-23 in the first tranche approved by the government recently. We believe it would maximise export of refined white sugar given global refined sugar prices are prevailing at ₹ 38-40 /kg (in rupee terms)
- The sugar industry is expected to produce 36.5 million tonnes (MT) of sugar in the 2022-23 season after diverting 4.5 MT sugar for ethanol. Considering 27.5 MT of consumption, the industry is required to export 9 MT of sugar in the season. The government has approved sugar exports of 6 MT in the first tranche and would further approve 3 MT of exports in the second tranche in January-February 2023
- OMCs have floated tender for 600 crore litres of ethanol for 2022-23 (November – October). This would take the ethanol blending level to 12%. With the addition of new capacities by sugar mills in UP, Maharashtra and Karnataka, the industry would be able to supply sufficient quantities for 12% blending

**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)	329	515	Buy	6913	-3.2	-0.3	20.1	51.2	14.8	14.4	16.5	18.6	14.8	14.9	12.4	8.2	2.7	2.6	2.3	2.1	16.4	15.3	16.0	23.1
Dalmia Bharat Sugar (DALSUG)	317	490	Buy	2569	39.9	10.0	14.2	18.1	17.6	14.8	17.7	19.0	9.5	8.7	7.6	6.4	1.2	1.1	1.1	1.0	13.3	12.3	15.8	17.7
Triveni Engineering (TRIENG)	279	380	Buy	6738	-9.9	43.9	28.0	24.8	11.9	14.8	13.5	16.8	22.7	15.8	12.3	9.9	4.3	3.5	2.2	2.0	19.4	15.8	20.7	24.6
Dwarikesh sugar (DWASUG)	91	135	Buy	1710	24.5	69.6	4.4	56.1	10.9	14.7	13.1	17.6	18.3	10.8	10.3	6.6	2.9	2.5	2.0	1.6	14.4	20.6	18.5	28.5
Avadh Sugar (AVASUG)	476	750	Buy	953	-12.4	60.3	25.2	28.4	9.6	11.0	12.0	12.9	14.4	14.5	12.0	8.0	1.4	1.2	1.0	0.9	11.5	12.5	15.3	19.8

Source: Company, ICICI Direct Research

Most sugar companies reported a dismal Q2 performance adversely impacted by higher cost of production, subdued sugar prices, increased levy molasses quota and one-off spend on wage arrears of the last three years. UP based sugar millers witnessed a lower recovery rate in the 2021-22 season due to extreme weather conditions during the crushing season. However, we believe a sugar recovery would improve in the 2022-23 season resulting in reduction in cost of production by ₹ 1/kg. Further, the government has allowed export of 6 MT. DBS has received 98,076 tonnes of export quota for the season. We believe high global refined white sugar prices would considerably improve Dalmia’s blended sugar realisation in the next two quarters. The company is most aggressive in undertaking distillery expansion given it has reached 705 KLD (21 crore litre per annum) distillery capacity. It is further increasing it to 800 KLD (24 crore litre). We also believe the company’s working capital requirement would come down significantly given it is holding cash of ₹ 572 crore. We remain positive on the sugar industry as well as Dalmia Bharat Sugar. We maintain our BUY recommendation and target price to ₹ 490/share.

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	
Total Operating Income	578.9	728.1	-20.5	938.4	-38.3	Revenue de-grew 20.5% due to 21.4% dip in sugar sales given the company received lower domestic sale quota
Other Operating Income	32.8	20.5	60.6	7.4	N.A.	
Raw Material Expenses	465.5	541.4	-14.0	707.2	-34.2	Cost of production has gone up on account of higher sugarcane prices and lower sugar recovery rate in 2021-22 season
Employee Expense	45.9	42.6	7.7	42.2	8.9	Employee spends includes one-time wage arrear of ₹ 5-6 crore (our estimate)
Other operating Expenses	60.1	57.0	5.4	70.5	-14.7	
EBITDA	7.3	87.0	-91.6	101.5	-92.8	Operating profit adversely impacted by lower sales volume, higher cost of production and one-time impact of wage arrears
EBITDA Margin (%)	1.3	11.9	-1069 bps	10.8	-956 bps	
Depreciation	27.9	20.8	33.7	27.5	1.1	
Interest	7.6	7.6	0.0	11.5	-33.7	
Other Income	32.8	20.5	60.6	7.4	346.2	Other income was higher due to large cash balance
PBT	16.6	79.0	-78.9	69.9	-76.2	
Tax Outgo	4.9	19.8	-75.1	20.6	-76.1	
PAT	11.7	59.2	-80.2	49.3	-76.2	Net profit dipped by 80% adversely impacted by lower operating profit
<b>Key Metrics</b>						
Sugar sales volume (in lakh tonnes)	1.1	1.5	-24.5	1.7	-33.9	Sugar volumes were down by 24.5% given the company received lower sugar sales quota
Distillery volumes (in crore litre)	3.2	3.0	5.0	4.4	-27.5	Distillery volumes were higher by 5% to 3.2 crore litre
Power volumes (in cr unit)	0.1	0.4	-71.4	6.1	-98.0	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	3,143.8	3,132.6	-0.4	3,411.1	3,351.0	-1.8	We slightly change our revenue estimate according to H1FY23 numbers
EBITDA	567.4	555.3	-2.1	649.0	635.8	-2.0	One-time spend related to wage arrears of three years factored in numbers
EBITDA Margin (%)	18.0	17.7	-32 bps	19.0	19.0	-5 bps	
Adjusted PAT	344.4	339.5	-1.4	401.1	400.9	0.0	We expect lower interest cost in FY24
EPS (₹)	42.5	42.0	-1.3	49.6	49.5	-0.1	

Source: ICICI Direct Research

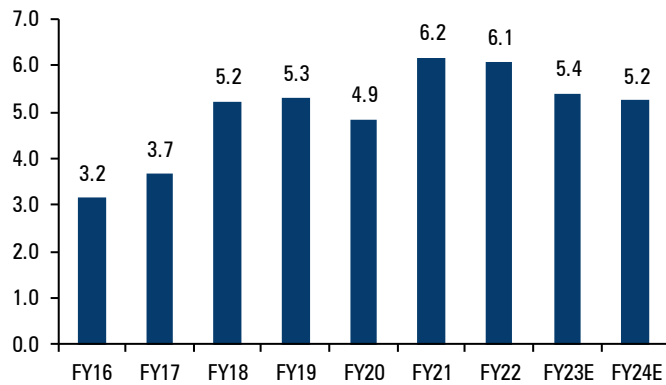
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sugar Sold (in tonne)	6,18,375	6,08,000	5,41,120	5,24,886	5,41,120	5,30,298	We tweak our sugar volume estimates for FY24
Sugar Price (₹ per tonne) (including export subsidy/)	33,924	35,592	35,600	36,200	35,500	36,000	We change our sugar realisation estimate slightly factoring in higher export realisation
Distillery volume	86,010	1,20,525	1,70,100	2,10,000	1,72,800	2,17,000	We tweak our ethanol volume estimates
Distillery price (₹ per KL)	50,878	56,995	61,555	61,555	61,555	61,555	
Power Units sold	30.4	27.2	28.1	27.5	28.1	27.5	
Price per unit (₹ per units)	4.6	3.9	4.0	4.1	4.0	4.1	

Source: ICICI Direct Research

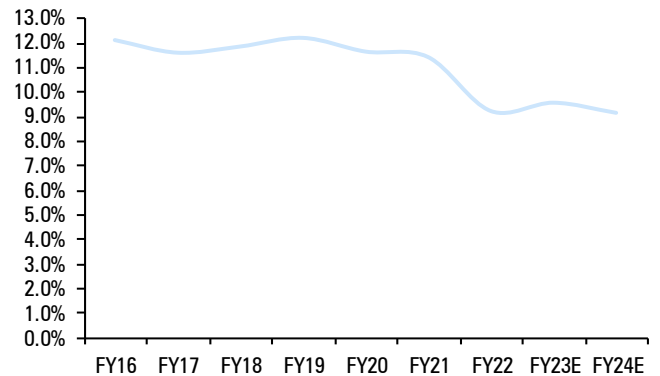
## Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



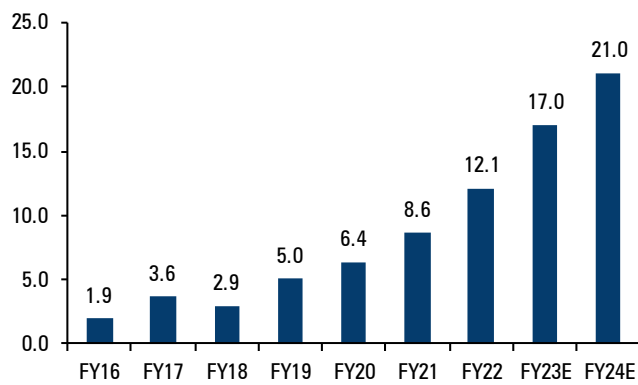
Source: ICICI Direct Research, Company

Exhibit 6: Sugar recovery declining due to sugarcane diversion towards ethanol (%)



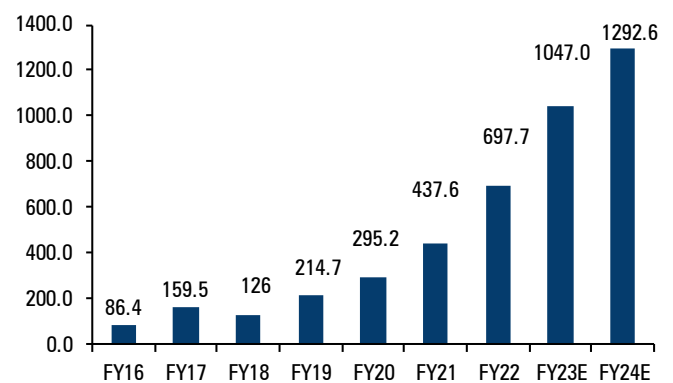
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



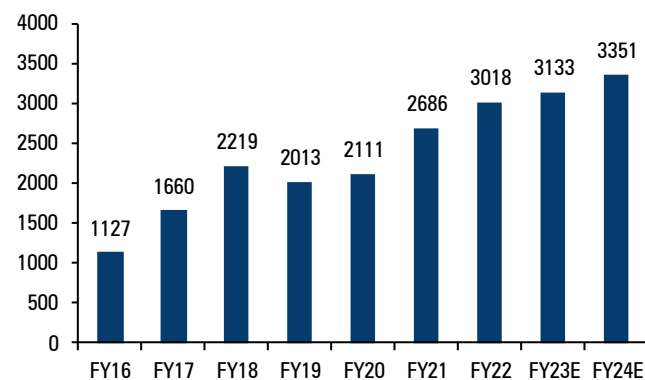
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



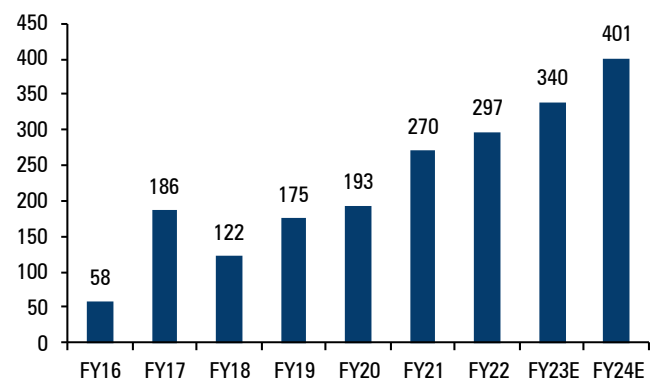
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Net profit trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	Adj. EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	2685.8	27.2	33.4	97.0	9.5	7.2	12.6	13.3
FY22	3018.3	12.4	36.7	10.0	8.6	7.3	12.6	12.3
FY23E	3132.6	3.8	42.0	14.2	7.6	5.4	14.7	15.8
FY24E	3351.0	7.0	49.5	18.1	6.4	4.3	15.2	17.7

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>2,685.8</b>	<b>3,018.3</b>	<b>3,132.6</b>	<b>3,351.0</b>
Growth (%)	27.2	12.4	3.8	7.0
Raw Material Expenses	1,828.7	2,133.2	2,141.9	2,259.5
Employee Expenses	143.7	175.6	178.6	187.7
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	241.9	261.7	256.9	268.1
Total Operating Expenditure	2,214.3	2,570.6	2,577.3	2,715.2
<b>EBITDA</b>	<b>471.4</b>	<b>447.7</b>	<b>555.3</b>	<b>635.8</b>
Growth (%)	40.1	-5.0	24.0	14.5
Depreciation	95.6	94.7	110.3	122.1
Interest	61.9	34.8	29.9	15.8
Other Income	53.9	64.0	31.6	29.7
PBT	314.0	318.1	415.1	497.9
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	97.6	84.8	107.2	126.6
<b>PAT</b>	<b>270.3</b>	<b>297.3</b>	<b>339.5</b>	<b>400.9</b>
Growth (%)	39.9	10.0	14.2	18.1
EPS (₹)	33.4	36.7	42.0	49.5

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	367.9	379.6	339.5	400.9
Add: Depreciation	95.6	72.9	110.3	122.1
Add: Interest	61.9	34.8	0.0	0.0
(Inc)/dec in Current Assets	-41.4	193.9	257.7	-5.8
Inc/(dec) in Current Liabilities	-90.0	-40.7	104.1	-28.8
<b>CF from operating activities</b>	<b>345.5</b>	<b>567.3</b>	<b>811.6</b>	<b>488.5</b>
(Inc)/dec in Investments	107.8	3.5	-5.0	-5.0
(Inc)/dec in Fixed Assets	-71.9	-333.4	-149.0	-149.0
Others	1.3	3.0	9.3	0.0
<b>CF from investing activities</b>	<b>37.1</b>	<b>-326.9</b>	<b>-144.7</b>	<b>-154.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-319.3	-139.4	-320.2	-255.0
Dividend paid & dividend tax	0.0	-48.6	-64.8	-80.9
Inc/(dec) in Sec. premium	0.0	0.0	-321.3	0.0
Others	-45.1	-29.2	0.0	0.0
<b>CF from financing activities</b>	<b>-364.4</b>	<b>-217.1</b>	<b>-706.2</b>	<b>-335.9</b>
Net Cash flow	18.3	23.3	-39.4	-1.5
Opening Cash	53.0	71.3	94.6	55.3
Cash with bank	8.5	9.3	0.0	0.0
<b>Closing Cash</b>	<b>79.8</b>	<b>103.9</b>	<b>55.3</b>	<b>53.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	2,126.5	2,342.9	2,296.4	2,616.4
Total Shareholders funds	2,142.7	2,359.1	2,312.6	2,632.6
Total Debt	915.9	818.5	498.3	243.3
Long Term Provisions	33.1	38.7	36.7	34.7
Other Non-current Liabilities	155.3	168.9	169.9	170.9
<b>Total Liabilities</b>	<b>3,247.0</b>	<b>3,385.2</b>	<b>3,017.5</b>	<b>3,081.5</b>
<b>Assets</b>				
Gross Block	2,288.7	2,606.5	2,756.5	2,906.5
Less: Acc Depreciation	980.8	1,075.6	1,185.8	1,307.9
Net Block	1,307.8	1,531.0	1,570.7	1,598.6
Capital WIP	27.1	58.8	57.8	56.8
Intangible assets	0.2	0.1	0.1	0.1
Non Current Investments	310.8	293.4	298.4	303.4
Other non-current assets	51.3	30.8	30.8	30.8
<b>Current Assets</b>				
Inventory	1,375.0	1,242.4	870.2	837.8
Debtors	115.3	166.5	261.0	279.3
Cash	79.8	103.9	55.3	53.8
Loans & Advances	0.4	0.3	0.3	0.3
Other Current Assets	465.1	395.1	415.1	435.1
<b>Current Liabilities</b>				
Creditors	305.7	261.2	451.6	424.6
Provisions	5.9	6.2	6.2	6.2
Other CL	174.1	169.7	84.3	83.6
Net Current Assets	1,549.8	1,471.2	1,059.7	1,091.8
<b>Total Assets</b>	<b>3,247.0</b>	<b>3,385.2</b>	<b>3,017.5</b>	<b>3,081.5</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	33.4	36.7	42.0	49.5
Cash EPS	45.2	48.4	55.6	64.6
BV	264.7	291.5	285.7	325.3
DPS	0.0	6.0	8.0	10.0
Cash Per Share	121.2	132.9	146.5	161.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	17.6	14.8	17.7	19.0
PBT / Net Sales	0.1	0.1	0.1	0.2
PAT Margin	10.1	9.9	10.8	12.0
Inventory days	186.9	150.2	101.4	91.3
Debtor days	15.7	20.1	30.4	30.4
Creditor days	41.6	31.6	52.6	46.2
<b>Return Ratios (%)</b>				
RoE	12.6	12.6	14.7	15.2
RoCE	13.3	12.3	15.8	17.7
<b>Valuation Ratios (x)</b>				
P/E	9.5	8.6	7.6	6.4
EV / EBITDA	7.2	7.3	5.4	4.3
EV / Net Sales	1.3	1.1	1.0	0.8
Market Cap / Sales	1.0	0.9	0.8	0.8
Price to Book Value	1.2	1.1	1.1	1.0
<b>Solvency Ratios</b>				
Debt/EBITDA	1.9	1.8	0.9	0.4
Debt / Equity	0.4	0.3	0.2	0.1
Current Ratio	5.6	5.7	3.0	3.2
Quick Ratio	1.7	1.8	1.3	1.5

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)	329	515	Buy	6,913	22.8	22.8	27.4	41.3	14.4	14.5	12.0	8.0	11.5	11.7	10.1	7.0	2.7	2.6	2.3	2.1	16.4	15.3	16.0	23.1
Dalmia Bharat Sugar (DALSUG)	317	490	Buy	2,569	33.4	36.7	42.0	49.5	9.5	8.6	7.6	6.4	7.2	7.3	5.4	4.3	1.2	1.1	1.1	1.0	13.3	12.3	15.8	17.7
Triveni Engineering (TRIENG)	279	380	Buy	6,738	12.2	17.5	22.5	28.0	22.9	15.9	12.4	9.9	13.5	12.9	9.2	7.4	4.3	3.5	2.2	2.0	19.4	15.8	20.7	24.6
Dwarikesh sugar (DWASUG)	91	135	Buy	1,710	4.9	8.2	8.6	13.4	18.7	11.0	10.6	6.8	11.1	7.3	7.3	4.5	2.9	2.5	2.0	1.6	14.4	20.6	18.5	28.5
Avadh Sugar (AVASUG)	476	750	Buy	953	38.8	62.2	77.9	100.0	12.3	7.7	6.1	4.8	8.3	7.1	5.4	3.8	1.4	1.2	1.0	0.9	11.5	12.5	15.3	19.8

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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