

Ethanol to contribute 40% of revenues by FY24E...

About the stock: Dalmia Bharat Sugar (DBS) is the only sugar company present in UP as well as Maharashtra. The company has sugar crushing capacity of 39000 TCD (5.5 lakh tonnes pa), distillery capacity of 710 KLD (23 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 12 crore litre in FY22 to 23 crore litre

Q3FY23 Results: DBS posted revenue dip of 2.5% due to lower sugar sales.

- The dip in sugar sales was mainly due to 30.7% de-growth in sales volumes
- EBITDA was at ₹ 112.5 crore, up 27.5%, driven by higher ethanol sales
- Consequently, PAT was at ₹ 64.9 crore, up 14.4%

What should investors do? DBS's share price has gone up 3x in last five years (from ₹ 107 in February 2018 to 332 in February 2023)

- We expect 27.5% CAGR in distillery revenues to drive the company's earnings at 10.7% CAGR during FY22-25E
- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 490, ascribing a multiple of 12x FY24 earnings

Key triggers for future price performance:

- DBS has expanded its distillery capacity to 23 crore litre from 12 crore litre in FY22. It would be utilising sugarcane juice, grains & B-heavy molasses to produce ethanol. Distillery sales to contribute 42% to overall revenues
- With more than 60% of its sugar production capacity being refined, it would be able to utilise it for export in future. Currently, global refined sugar prices are trading above ₹ 40/kg (domestic prevailing prices at ₹ 35/kg)
- The company would be generating free cash flow of ~₹ 1100 crore in the next three years, which would be utilised for working capital requirement, any further capex and dividend payout

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

- With distillery capex, TEL would increase its ethanol volumes from 11.8 crore litre in FY22 to 22.7 crore litre by FY24 & 31.8 crore litre in FY25. Distillery sales to contribute 30% to total revenues in the next three years
- We value the stock at ₹ 360, valuing the business at 14x FY24 PE



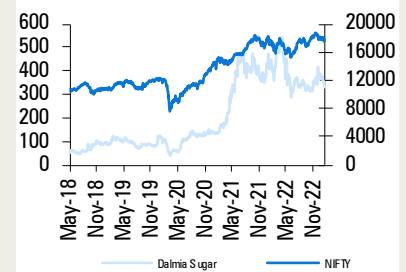
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	2,688.4
Total Debt (FY22)	818.5
Cash and Investments (FY22)	103.9
EV	3,403.0
52 week H/L (₹)	568 / 282
Equity capital	16.2
Face value (₹)	2.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	74.9	74.9	74.9	74.9
FII	1.2	1.4	1.2	1.0
DII	0.1	0.1	0.0	0.1
Others	23.9	23.6	23.9	24.0

Price Chart



Recent event & key risks

- DBS has expanded distillery capacity to 710 KLD including 110 KLD of grain-based distillery
- Key Risk:** (i) Any steep increase in sugarcane SAP prices (ii) Reversal in government stance over ethanol blending

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Key Financial Summary

Key Financials	FY21	FY22	5 Year CAGR (FY17-22E)	FY23E	FY24E	FY25E	CAGR (FY22-25E)
Total Operating Income	2685.8	3018.3	12.4%	3125.7	3335.9	3455.5	4.6%
EBITDA	471.4	447.7	3.4%	474.3	550.7	600.7	10.3%
EBITDA Margin %	17.6	14.8		15.2	16.5	17.4	
Net Profit	270.3	297.3	9.8%	292.9	343.9	403.6	10.7%
EPS (₹)	33.4	36.7	0.1	36.2	42.5	49.9	10.7%
P/E	9.9	9.0		9.2	7.8	6.7	
RoNW %	12.6	12.6		12.7	13.3	13.9	
RoCE (%)	13.3	12.3		13.7	15.7	16.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY23 Results: Refined sugar exports, higher ethanol volumes drive profitability...

- Consolidate revenue de-grew 2.5% impacted by 2.9% decline in sugar sales. Sugar sales were adversely impacted by lower sugar volumes given domestic sale quota was down 53.2%, partially offset by exports volume
- Overall sugar sales volume was down 30.7% to 0.8 lakh tonnes (lt). Further, sugar realisation was flat given domestic prices remain largely in a small range of ₹ 34-36/kg
- Distillery sales witnessed growth of 53% to ₹ 244.1 crore led by 37.7% growth in distillery volumes on account of capacity addition earlier during the year. Distillery realisation also improved with higher contribution from ethanol produced from sugarcane juice
- The company sold 3.87 crore litre of ethanol during the quarter. We believe ethanol realisation would be close to ₹ 64-65/litre given the company is producing ethanol through sugarcane juice route during crushing season
- Power volumes were down 8% to 6.8 crore units mainly due to increase in captive power requirement given the company has added new distillery capacity, which increased captive power requirement
- Operating profit grew 27.5% to ₹ 112.5 crore led by higher revenue contribution from high margin ethanol segment & export of refined sugar. Global refined sugar prices are prevailing at more than ₹ 40/kg, which is ₹ 5/kg higher compared to domestic sugar prices. We also believe the company would have sold some export quota in exchange for domestic quota during the quarter
- Net profit witnessed growth of 14.4% to ₹ 64.9 crore due to higher interest outgo given 12% increase in sugarcane crushing during 2022-23 season
- In 2022-23 season, the company has crushed 12% higher sugarcane to 19.6 lakh tonnes. Moreover, gross recovery for the company is higher by 30 bps unlike many other sugar mills in UP
- The company has largely completed its capex for distillery capacity, which has enhanced its total capacity to 710 KLD (23 crore litre). This includes 600 KLD molasses-based distillery & 110 KLD grain-based distillery
- It also increased its sugarcane crushing capacity at Ninaidevi plant from 3000 tonnes crushed per day (TCD) to 4000 TCD. Its total crushing capacity has been enhanced to 37150 TCD
- The company also completed steam saving project, which would reduce steam by 10%. We believe this would result in bagasse saving and, in turn, increase in bagasse sales volumes. Sugar mills are fetching ~₹ 3/kg for bagasse currently
- Long term debt is at ₹ 419 crore entirely under interest subvention scheme. The company has announced interim dividend of ₹ 3/share
- OMCs have floated tender for 2022-23 (December 2022-October 2023) for a quantity of 600 crore litre, which is significantly higher than last ethanol year. This is a step towards achieving 20% blending on pan-India basis from 2025-26 season. Currently, 475 crore litre finalised by OMCs against requirement of 550 crore litre for 12% blending
- The industry is expected to produce 34 million tonnes (MT) of sugar in 2022-23 season. With 27.5 MT of consumption and 6.1 MT of exports, sugar inventory levels are likely to remain 5.5-6.0 MT on September 2023. This is similar to inventory levels in September 2022

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS growth (%)			EBITDA margins (%)			PE (x)			P/B (x)			RoCE (%)		
					FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Balrampur Chini (BALCHI)	365	485	Buy	7439	-0.3	1.0	59.1	14.4	14.5	17.8	14.5	14.3	9.0	2.4	2.3	2.0	15.3	14.9	22.3
Dalmia Bharat Sugar (DALSUG)	332	490	Buy	2689	10.0	-1.5	17.4	14.8	15.2	16.5	9.0	9.2	7.8	1.1	1.2	1.0	12.3	13.7	15.7
Triveni Engineering (TRIENG)	272	360	Buy	6581	45.9	17.2	23.3	14.8	12.2	16.2	15.4	13.1	10.6	3.4	2.2	2.1	15.8	17.4	18.9
Dwarikesh sugar (DWASUG)	89	120	Buy	1675	69.6	-8.8	34.8	14.7	12.7	15.2	10.8	11.8	8.8	2.5	2.1	1.8	20.6	18.8	21.9
Dhampur Sugar (DHASUG)	212	270	Buy	1407	0.5	8.5	13.9	15.3	12.7	14.2	9.8	9.0	7.9	1.7	1.5	1.4	13.9	15.3	17.7
Avadh Sugar (AVASUG)	468	750	Buy	935	60.3	25.2	28.4	11.0	12.0	12.9	16.0	15.9	10.0	1.2	1.0	0.9	12.5	15.3	19.8

Source: Company, ICICI Direct Research

Dalmia Bharat Sugar is one of the most efficient sugar companies with high distillery capacity. The company has been aggressively diverting sugarcane towards ethanol & leveraging its high (710 KLD) distillery capacity to produce B-heavy, sugarcane juice & grain-based ethanol. Further, the company also has high refined sugar capacities, which has boosted profitability in the last few seasons from exports due to high global refined sugar prices. The company also has one of the lightest balance sheet in sugar industry. We believe higher ethanol volumes and expected improvement in sugar prices in FY24 would boost the profitability of the company. We remain positive on the sugar industry as well as on Dalmia Bharat Sugar. We maintain our **BUY** recommendation and target price of ₹ 490/share.

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
Total Operating Income	600.0	615.7	-2.5	578.9	3.7	Net sales was down by 2.5% due to 30.7% decline in sugar sales volumes due to lower domestic sales quota. However, distillery sales grew by 53%
Other Operating Income	22.8	22.2	2.8	32.8	N.A.	
Raw Material Expenses	355.7	404.3	-12.0	465.5	-23.6	
Employee Expense	50.2	53.3	-5.8	45.9	9.3	
Other operating Expenses	81.6	69.1	18.0	60.1	35.7	
EBITDA	112.5	88.2	27.5	7.3	1,443.1	Operating profit growth was led by higher ethanol volumes & strong sugar export realisation given the company would have sold refined sugar which is trading at premium in global markets. Moreover, it would have sold some export quota in exchange of domestic sales quota
EBITDA Margin (%)	18.7	14.3	442 bps	1.3	1749 bps	
Depreciation	32.2	24.1	33.5	27.9	15.5	Higher depreciation provisioning due to addition of new capacities in last one year
Interest	9.3	6.4	45.5	7.6	22.9	Increase in working capital requirement due to 12% increase in sugarcane crushing in 2022-23 season
Other Income	22.8	22.2	2.8	32.8	-30.7	
PBT	93.7	79.8	17.4	16.6	463.7	
Tax Outgo	28.6	23.1	23.8	4.9	480.9	
PAT	64.9	56.8	14.4	11.7	454.3	Net profit grew by 14.4% with strong growth in operating profit
Key Metrics						
Sugar sales volume (in lakh tonnes)	0.8	1.1	-30.7	1.1	-28.8	Sugar volumes dip due to lower domestic sales quota
Distillery volumes (in crore litre)	3.9	2.8	37.7	3.2	22.5	Robust growth in distillery volumes with commissioning of new capacities
Power volumes (in cr unit)	6.8	7.4	-8.1	0.1	NA	It is utilising power for captive use with commissioning of new distilleries

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ (Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% change	Old	New	% change	New	
Net sales	3,132.6	3,125.7	-0.2	3,351.0	3,335.9	-0.5	3,455.5	We slightly cut our sugar sales estimates
EBITDA	555.3	474.3	-14.6	635.8	550.7	-13.4	600.7	We cut our FY23 operating profit estimate mainly due to higher diversion towards ethanol produced from sugarcane juice, which would result in B-Heavy molasses inventory pile up at the end of March. We are also incorporating sugarcane SAP increase in 2023-24 season
EBITDA Margin (%)	17.7	15.2	-255 bps	19.0	16.5	-247 bps	17.4	
Adjusted PAT	339.5	292.9	-13.7	400.9	343.9	-14.2	403.6	We increase our other income estimate due to increase in cash surplus
EPS (₹)	42.0	36.2	-13.8	49.5	42.5	-14.2	49.9	

Source: ICICI Direct Research

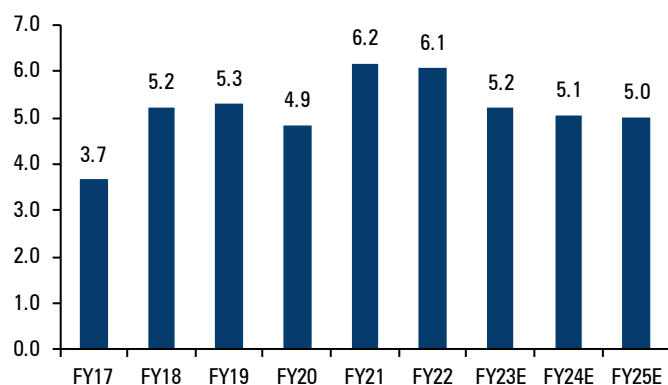
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	
Sugar Sold (in tonne)	6,08,000	5,22,880	5,07,194	5,02,122	5,41,120	5,24,886	We slightly cut our sugar sales volume estimate given the company is aggressively diverting sugarcane towards ethanol
Sugar Price (₹ per tonne) (including export subsidy/)	35,592	36,300	36,000	36,300	35,600	36,200	We raise our sugar realisation estimate due to higher export realisation given the company has exported refined sugar
Distillery volume	1,20,525	1,70,100	2,14,065	2,27,200	1,70,100	2,10,000	We slightly tweaked our ethanol volume estimates
Distillery price (₹ per KL)	56,995	62,410	62,410	63,658	61,555	61,555	We increase our ethanol realisation estimate given the company is selling large part of sugarcane juice ethanol
Power Units sold	27.2	27.0	27.5	29.0	28.1	27.5	
Price per unit (₹ per units)	3.9	4.0	4.1	4.2	4.0	4.1	

Source: ICICI Direct Research

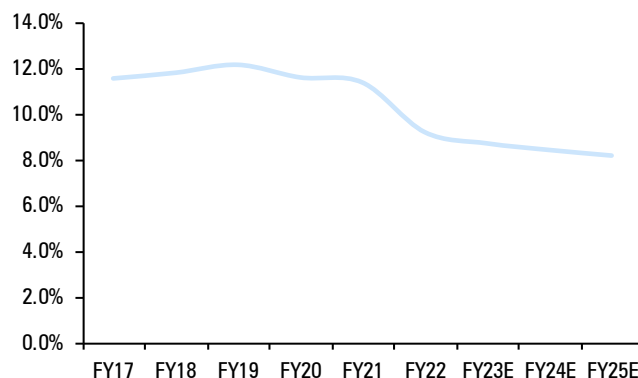
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



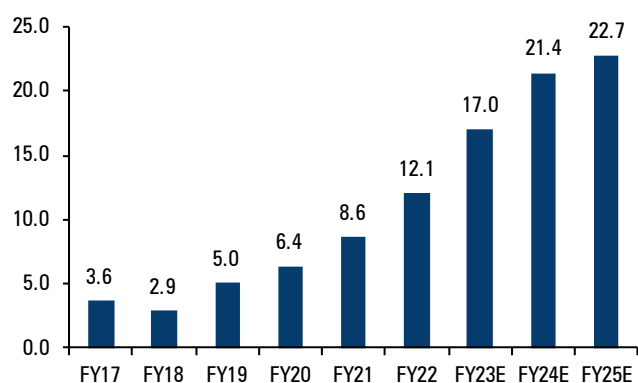
Source: ICICI Direct Research, Company

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



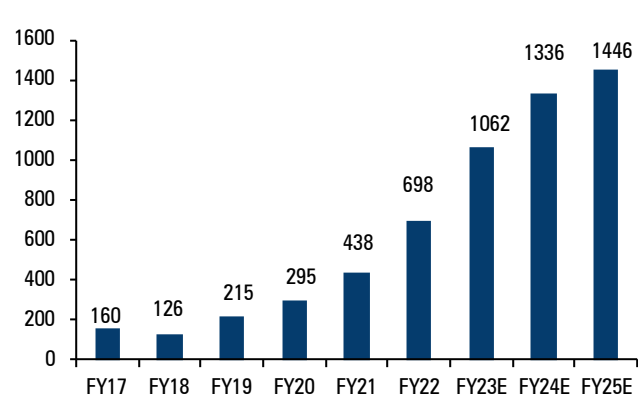
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



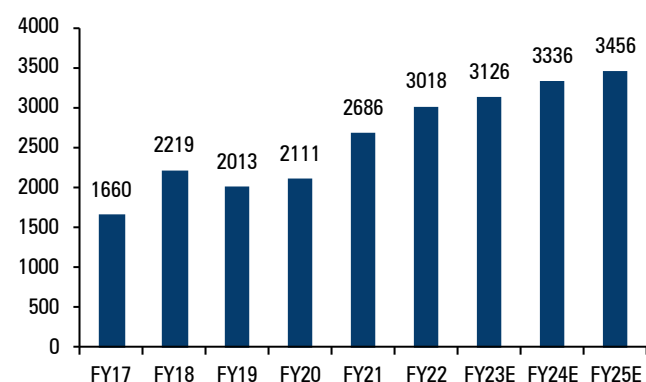
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



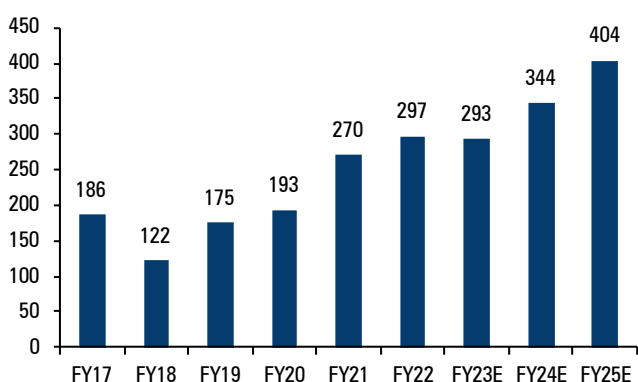
Source: Company, ICICI Direct Research

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 (%)
FY22	3018.3	12.4	36.7	10.0	9.0	7.5	12.6	12.3
FY23E	3125.7	3.6	36.2	-1.5	9.2	7.0	12.7	13.7
FY24E	3335.9	6.7	42.5	17.4	7.8	5.5	13.3	15.7
FY25E	3455.5	3.6	49.9	17.4	6.7	4.6	13.9	16.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total Operating Income	3,018.3	3,125.7	3,335.9	3,455.5
Growth (%)	12.4	3.6	6.7	3.6
Raw Material Expenses	2,133.2	2,188.8	2,311.5	2,372.8
Employee Expenses	175.6	187.5	193.5	200.4
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	261.7	275.1	280.2	281.6
Total Operating Expenditure	2,570.6	2,651.4	2,785.2	2,854.8
EBITDA	447.7	474.3	550.7	600.7
Growth (%)	-5.0	5.9	16.1	9.1
Depreciation	94.7	112.3	124.2	118.4
Interest	34.8	49.6	23.9	10.7
Other Income	64.0	77.2	75.0	68.0
PBT	318.1	324.4	402.6	471.6
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	84.8	108.4	133.7	136.0
PAT	297.3	292.9	343.9	403.6
Growth (%)	10.0	-1.5	17.4	17.4
EPS (₹)	36.7	36.2	42.5	49.9

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit/Loss after Tax	379.6	292.9	343.9	403.6
Add: Depreciation	72.9	112.3	124.2	118.4
Add: Interest	34.8	0.0	0.0	0.0
(Inc)/dec in Current Assets	193.9	260.2	16.8	-155.9
Inc/(dec) in Current Liabilities	-40.7	-73.0	42.8	38.8
CF from operating activities	567.3	592.4	527.6	405.0
(Inc)/dec in Investments	3.5	-5.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-333.4	-199.0	-149.0	-79.0
Others	3.0	9.3	0.0	0.0
CF from investing activities	-326.9	-194.7	-154.0	-84.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-139.4	-110.2	-310.0	-220.0
Dividend paid & dividend tax	-48.6	-32.4	-56.7	-80.9
Inc/(dec) in Sec. premium	0.0	-321.3	0.0	0.0
Others	-29.2	0.0	0.0	0.0
CF from financing activities	-217.1	-463.8	-366.7	-300.9
Net Cash flow	23.3	-66.2	6.9	20.0
Opening Cash	71.3	94.6	28.5	35.4
Cash with bank	9.3	0.0	0.0	0.0
Closing Cash	103.9	28.5	35.4	55.4

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	2,342.9	2,282.2	2,569.4	2,892.1
Total Shareholders funds	2,359.1	2,298.4	2,585.6	2,908.3
Total Debt	818.5	708.3	398.3	178.3
Long Term Provisions	38.7	36.7	34.7	32.7
Other Non-current Liabilities	168.9	169.9	170.9	171.9
Total Liabilities	3,385.2	3,213.3	3,189.5	3,291.2
Assets				
Gross Block	2,606.5	2,806.5	2,956.5	3,036.5
Less: Acc Depreciation	1,075.6	1,187.8	1,312.0	1,430.4
Net Block	1,531.0	1,618.7	1,644.5	1,606.1
Capital WIP	58.8	57.8	56.8	55.8
Intangible assets	0.1	0.1	0.1	0.1
Non Current Investments	293.4	298.4	303.4	308.4
Other non-current assets	30.8	30.8	30.8	30.8
Current Assets				
Inventory	1,242.4	868.3	834.0	959.9
Debtors	166.5	260.5	278.0	288.0
Cash	103.9	28.5	35.4	55.4
Loans & Advances	0.3	0.3	0.3	0.3
Other Current Assets	395.1	415.1	415.1	435.1
Current Liabilities				
Creditors	261.2	272.9	317.4	357.5
Provisions	6.2	6.2	6.2	6.2
Other CL	169.7	86.0	85.3	84.9
Net Current Assets	1,471.2	1,207.5	1,153.9	1,290.0
Total Assets	3,385.2	3,213.3	3,189.5	3,291.2

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	36.7	36.2	42.5	49.9
Cash EPS	48.4	50.1	57.8	64.5
BV	291.5	284.0	319.4	359.3
DPS	6.0	4.0	7.0	10.0
Cash Per Share	132.9	146.8	162.1	176.7
Operating Ratios (%)				
EBITDA Margin	14.8	15.2	16.5	17.4
PBT / Net Sales	0.1	0.1	0.1	0.2
PAT Margin	9.9	9.4	10.3	11.7
Inventory days	150	101	91	101
Debtor days	20	30	30	30
Creditor days	32	32	35	38
Return Ratios (%)				
RoE	12.6	12.7	13.3	13.9
RoCE	12.3	13.7	15.7	16.8
Valuation Ratios (x)				
P/E	9.0	9.2	7.8	6.7
EV / EBITDA	7.5	7.0	5.5	4.6
EV / Net Sales	1.1	1.1	0.9	0.8
Market Cap / Sales	0.9	0.9	0.8	0.8
Price to Book Value	1.1	1.2	1.0	0.9
Solvency Ratios				
Debt/EBITDA	1.8	1.5	0.7	0.3
Debt / Equity	0.3	0.3	0.2	0.1
Current Ratio	5.7	4.7	4.1	4.1
Quick Ratio	1.8	2.1	1.9	1.7

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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E
Balrampur Chini (BALCHI)	365	485	Buy	7,439	22.8	23.0	36.6	16.0	15.9	10.0	11.2	10.6	7.0	2.4	2.3	2.0	15.3	14.9	22.3
Dalmia Bharat Sugar (DALSUG)	332	490	Buy	2,689	36.7	36.2	42.5	9.0	9.2	7.8	7.5	7.0	5.5	1.1	1.2	1.0	12.3	13.7	15.7
Triveni Engineering (TRIENG)	272	360	Buy	6,581	17.7	20.8	25.7	15.3	13.1	10.6	12.7	10.7	8.4	3.4	2.2	2.1	15.8	17.4	18.9
Dwarikesh sugar (DWASUG)	89	120	Buy	1,675	8.2	7.5	10.1	10.8	11.8	8.8	7.4	7.7	6.2	2.5	2.1	1.8	20.6	18.8	21.9
Dhampur Sugar (DHASUG)	212	270	Buy	1,407	21.7	23.5	26.8	9.8	9.0	7.9	7.9	7.1	5.9	1.7	1.5	1.4	13.9	15.3	17.7
Avadh Sugar (AVASUG)	468	750	Buy	935	62.2	77.9	100.0	7.5	6.0	4.7	7.1	5.4	3.8	1.2	1.0	0.9	12.5	15.3	19.8

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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