

CMP: ₹ 356

Target: ₹ 490 (38%)

Target Period: 12 months

BUY

May 22, 2023

In expansion spree; ethanol to contribute 45% to sales

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 37150 TCD (5.5 lakh tonnes pa), distillery capacity of 710 KLD (22 crore liters pa) & co-generation capacity of 102 MW & wind power of 16.5 MW (Total 30 crore units' saleable power).

- The company is expanding its distillery capacity from 22 crore litre in FY23 to 32 crore litre by FY26

Q4FY23 Results: DBS posted strong set of results with revenue growth of 34.2%.

- Sales growth was driven by higher sugar exports & distillery volumes
- EBITDA was at ₹ 207.7 crore, up 58.8%, driven by sugar export realisation
- Consequently, PAT was at ₹ 125.3 crore, up by 121.1%

What should investors do? DBS' share price has gone up ~6x in the last five years (from ₹ 64 in May 2018 to 369 in May 2023)

- We expect 28.8% CAGR in distillery revenues, which would drive company's earnings by 25.3% 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 10x FY25 earnings

Key triggers for future price performance:

- DBS is expanding its distillery capacity from current 710 KLD (22 crore litre pa) to 1100 KLD (32 crore litre pa) by September 2024 by adding grain-based ethanol capacities. Distillery segment to contribute 45% to revenue by FY25
- With more than 60% of the company's sugar production capacity is refined, it fetches higher domestic & export sugar realisation. Given prevailing global sugar prices are trading at 30-40% higher compared to domestic prices, any surplus production in the country would benefit DBS in future
- The company would be generating operating cash flow of ₹ 842 crore in the next two years, which would be utilised for working capital requirement, capex related to distillery & dividend payout

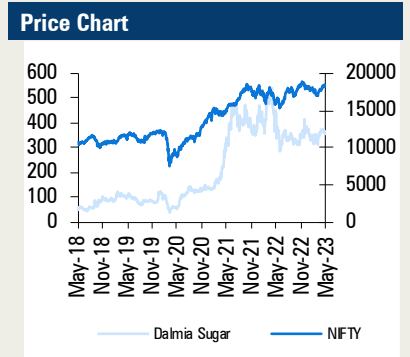
Alternate Stock Idea: We also like Balrampur Chini in our coverage universe

- With completion of large distillery capex, distillery volume is expected to grow at 33% CAGR along with estimated 3% increase in ethanol realisation. This would result in 37% CAGR in distillery sales
- We value the stock at ₹ 470, valuing the business at 15x FY25 PE



Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	2,883.9
Total Debt (FY23)	454.1
Cash and Investments (FY23)	68.7
EV	3,269.2
52 week H/L (₹)	473 / 282
Equity capital	16.2
Face value (₹)	2.0

Shareholding pattern				
(in %)	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	74.9	74.9	74.9	74.9
FII	1.4	1.2	1.0	1.0
DII	0.1	0.0	0.1	0.1
Others	23.6	23.9	24.0	24.0



- Recent event & key risks**
- DBS is expanding distillery capacity to 1100 KLD by adding grain-based ethanol capacities
 - 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	FY23E	5 Year CAGR (FY18-23E)	FY24E	FY25E	CAGR (FY23-25E)
Total Operating Income	2685.8	3018.3	3252.1	7.7%	3573.1	3976.0	10.6%
EBITDA	471.4	447.7	436.5	13.3%	588.5	681.8	25.0%
EBITDA Margin %	17.6	14.8	13.4		16.5	17.1	
Net Profit	270.3	297.3	250.1	15.4%	332.5	392.8	25.3%
EPS (₹)	33.4	36.7	30.9	15.4%	41.1	48.5	25.3%
P/E	10.7	9.7	11.5		8.7	7.3	
RoNW %	12.6	12.6	9.2		13.1	13.7	
RoCE (%)	13.3	12.3	11.4		14.4	15.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4FY23 Results: Sugar recovery improvement to drive sugar segment profits...

- DBS revenue witnessed growth of 34.2% led by sugar segment sales growth of 17.4% and distillery sales growth of 27.6%
- The 17.4% growth in sugar sales was led by 28% growth in sugar sales volume to 1.92 lakh tonnes mainly on account of higher exports during the quarter. We believe sugar realisation also would have inched up mainly due to higher sugar export realisation (contracted by ₹ 38-40/kg)
- Distillery sales growth of 27.6% was led by 41% growth in ethanol volumes to 5.84 crore litre. Distillery volumes were aided by completion of distillery capex earlier in year. The company sold 17.23 crore litre of ethanol in FY23
- Power volumes were down 5% to 11.21 crore given the company is utilising higher captive power for new distillery operations. Moreover, sugar companies prefer selling bagasse in off-season & limit power generation during the season only for captive usage
- Operating profit grew 58.8% to ₹ 207.7 crore led by sugar exports at higher prices and increase in distillery volumes. Net profit growth of 121.1% was on account of higher operating profit & higher taxation in the base quarter
- The company saw 13% increase in sugarcane crushing as well as 13 bps increase in gross sugar recovery in Uttar Pradesh mills for 2022-23 season. This would reduce cost of production for the company in H1FY24. Moreover, both Maharashtra mills also saw best recovery in the state. The company is holding 2.1 lakh tonnes of sugar valued at ₹ 31.7/kg
- Total debt for the company was at ₹ 454.2 crore, reduction of ₹ 364.3 crore in the last one year. Given, it is undertaking huge capex ~to the tune of ~₹ 500 crore in next two years, its overall debt would increase to ₹ 804 crore by FY24
- The company is increasing its distillery capacity from current 710 KLD to 1100 KLD with the addition of 390 KLD grain-based distillery in different plants in next 18 months. This would take its total annual distillery capacity from current 22 crore litre of 32 crore litre by FY26
- The company is also increasing its sugarcane crushing capacity from current 37150 TCD to 39700 TCD by 2024-25 season. The company is also undertaking steam saving programme for optimal utilisation of Bagasse
- OMCs have floated tender for 2022-23 (December 2022-October 2023) for 600 crore litre of ethanol. Out of this, 534 crore litre, ethanol blending would reach ~12% in the current year
- Sugar production for 2022-23 season is expected to be 32.7 million tonnes (MT). Considering consumption of 27.7 MT & exports of 6.3 MT, sugar inventory level is expected to decline by at least 1 MT by September 2023. This would keep domestic sugar prices firm above ₹ 36 /kg until November-2023. Moreover, possibility of El nino & below normal rainfall could keep sugar prices firm for extended period of time

Dalmia Bharat Sugar - ESG Disclosure Score*

ESG Disclosure Score			
Score	FY19	FY20	FY21
Environmental	29.1	29.1	40.9
Social	12.2	17.1	17.4
Governance	78.6	78.6	78.6
Overall ESG Score	40.0	41.6	45.7

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Cr)	EPS growth (%)				EBITDA Margin (%)				PE (x)				P/B (x)				RoCE (%)			
	₹	₹	Rating		FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E	FY22	FY23E	FY24E	FY25E
Balrampur Chini (BALCHI)	394	470	Buy	8032	-0.1	-38.3	88.3	16.6	14.4	11.0	15.8	16.0	17.3	27.9	14.8	12.7	2.9	2.7	2.3	2.1	15.3	9.1	17.1	19.1
Dalmia Bharat Sugar (DALISUG)	356	490	Buy	2884	10.0	-15.9	33.0	18.1	14.8	13.4	16.5	17.1	9.7	11.5	8.7	7.3	1.2	1.1	1.1	1.0	12.3	11.4	14.4	15.9
Triveni Engineering (TRIENG)	267	360	Buy	6448	45.9	-5.1	52.6	24.3	14.8	10.0	16.2	17.5	15.0	15.8	10.4	8.4	3.7	2.4	2.3	2.0	15.8	14.6	19.3	25.0
Dwarikesh sugar (DWASUG)	90	115	Buy	1691	69.6	-32.5	38.9	29.3	14.7	10.4	13.5	13.7	10.9	16.1	11.6	9.0	2.6	2.3	1.9	1.7	20.6	16.0	20.8	22.2
Dhampur Sugar (DHASUG)	246	340	Buy	1631	0.5	9.7	13.2	28.0	15.3	12.3	13.7	15.1	11.3	10.3	9.1	7.1	2.0	1.7	1.5	1.3	13.9	14.5	15.9	18.5
Avadh Sugar (AVASUG)	492	585	Hold	984	60.3	-19.4	29.8	19.7	11.0	9.1	10.7	11.3	7.9	9.8	7.6	6.3	1.3	1.2	1.0	0.9	12.5	10.6	12.9	14.6

Source: Company, ICICI Direct Research

Dalmia Bharat Sugar is one of the most efficient sugar companies in India with high distillery capacity. The company is aggressive in its distillery capex plans & it is looking to leverage high demand opportunity of ethanol (20% ethanol blending require 1000 crore litre of ethanol by OMCs by 2025-26) through grain-based ethanol distilleries in next two years. The company would be increasing its annual distillery capacity from 22 crore litre currently to 32 crore litre by September-2024. It has one of the best balance sheets in sugar industry with mere 0.1x debt to equity. We believe Dalmia Bharat Sugar is one of the best plays in sugar sector with high sugar recovery, low cost of production, high ethanol capacity, strong sugar refining operations & lean balance sheet. We remain positive on the company for long-term perspective. We maintain our BUY recommendation & target price to ₹ 490 / share.

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	
Total Operating Income	1,149.0	856.0	34.2	600.0	91.5	Net sales growth was driven by higher sugar exports & increase in distillery volumes
Other Operating Income	12.6	16.5	-23.5	22.8	-44.6	
Raw Material Expenses	792.7	586.4	35.2	355.7	122.9	
Employee Expense	51.9	46.3	12.1	50.2	3.3	
Other operating Expenses	96.8	76.2	26.9	81.6	18.6	Overhead spends were higher due to high sugar exports & increased ethanol volumes (related conversion costs)
EBITDA	207.7	130.8	58.8	112.5	84.7	Operating profit grew by 58.8% led by higher sugar & distillery sales
EBITDA Margin (%)	18.1	15.3	280 bps	18.7	-67 bps	
Depreciation	33.7	28.9	16.5	32.2	4.7	
Interest	9.3	8.7	7.3	9.3	-0.5	
Other Income	12.6	16.5	-23.5	22.8	-44.6	
PBT	177.4	109.7	61.7	93.7	89.2	
Tax Outgo	52.1	53.1	-1.8	28.6	82.3	
PAT	125.3	56.7	121.1	64.9	93.0	Net profit grew by 121.1% led by higher operating profit & flat income tax given base quarter tax includes one time tax
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.9	1.5	28.0	0.8	143.0	Sugar sales volumes was driven by higher exports sales in Q4
Distillery volumes (in crore litre)	5.8	4.1	41.1	3.9	50.9	Distillery volumes were higher aided by capacity addition in earlier during the year
Power volumes (in cr unit)	11.2	11.8	-5.2	6.8	65.1	Power volumes were down due to higher captive requirement for distillery operations

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% change	Old	New	% change	
Net sales	3,335.9	3,573.1	7.1	3,455.5	3,976.0	15.1	We increase our sugar & distillery sales estimates factoring in higher sugarcane availability & grain ethanol capacity addition
EBITDA	550.7	588.5	6.9	600.7	681.8	13.5	We are factoring ₹15/quintal increase in sugarcane prices in 2023-24 season
EBITDA Margin (%)	16.5	16.5	-4 bps	17.4	17.1	-24 bps	
Adjusted PAT	343.9	332.5	-3.3	403.7	392.8	-2.7	Distillery capacity addition would result in higher depreciation provisioning & interest costs. We are considering ~30% income tax rate similar to FY23 level
EPS (₹)	42.5	41.1	-3.3	49.9	48.5	-2.8	

Source: ICICI Direct Research

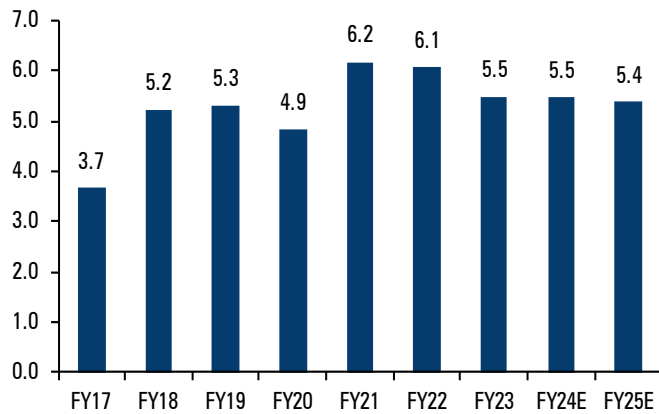
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY22	FY23	FY24E	FY25E	FY24E	FY25E	
Sugar Sold (in tonne)	6,08,000	5,50,240	5,47,865	5,38,229	5,07,194	5,02,122	We raise our sugar volume estimates given sugarcane availability is increasing in Dalmia's catchment area
Sugar Price (₹ per tonne) (including export subsidy/)	35,592	36,300	37,000	37,500	36,000	36,300	Domestic sugar prices increased in last two months given industry wide sugar inventory levels are lowest
Distillery volume	1,20,525	1,72,341	2,21,520	2,83,200	2,14,065	2,27,200	We raise our distillery volume estimates as the company is undertaking grain based capacity
Distillery price (₹ per KL)	56,995	62,410	62,410	63,034	62,410	63,658	We slightly change our distillery volume estimate factoring in higher volumes of low priced grain based ethanol
Power Units sold	27.2	24.2	24.9	25.7	27.5	29.0	We cut our power volume estimates given higher captive requirement for distillery operations
Price per unit (₹ per units)	3.9	4.0	4.1	4.2	4.1	4.2	

Source: ICICI Direct Research

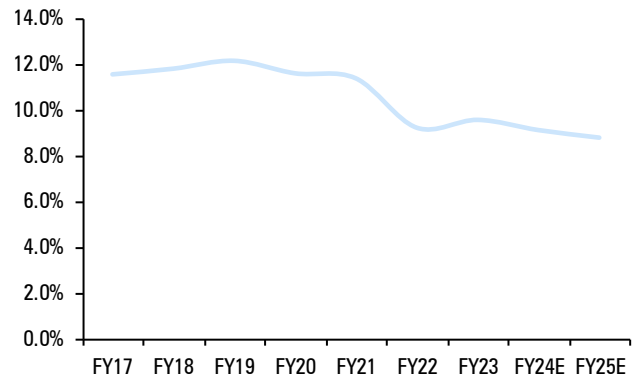
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



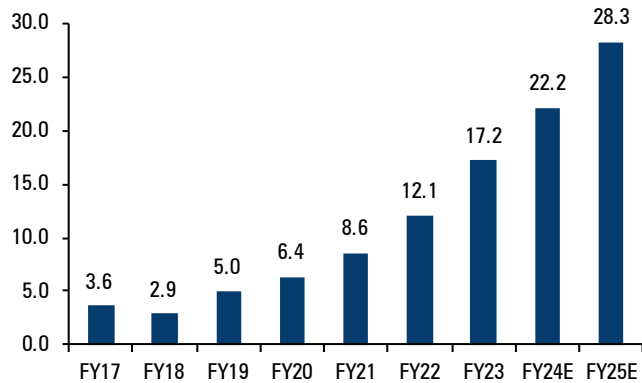
Source: ICICI Direct Research, Company

Exhibit 6: Net sugar recovery after diversion towards B-heavy & Sugarcane Juice (%)



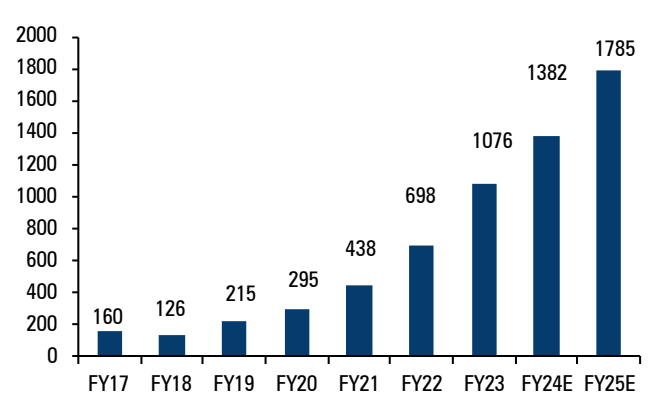
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



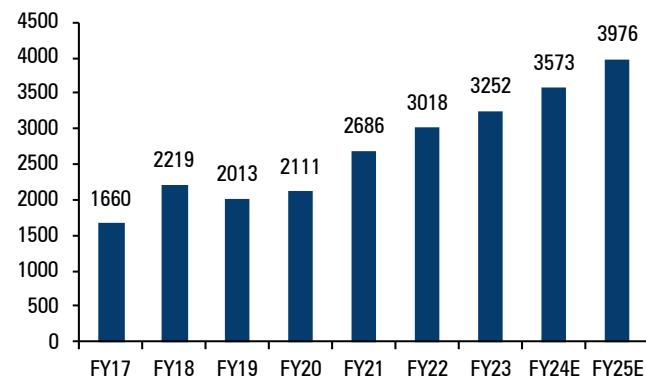
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



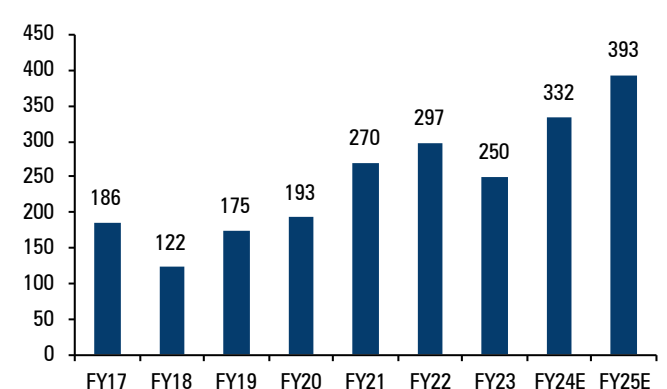
Source: Company, ICICI Direct Research

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	9.7	8.0	12.6	12.3
FY23	3252.1	7.7	30.9	-15.9	11.5	7.3	9.2	11.4
FY24E	3573.1	9.9	41.1	33.0	8.7	6.1	13.1	14.4
FY25E	3976.0	11.3	48.5	18.1	7.3	5.0	13.7	15.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total Operating Income	3,018.3	3,252.1	3,573.1	3,976.0
Growth (%)	12.4	7.7	9.9	11.3
Raw Material Expenses	2,133.2	2,322.4	2,473.6	2,764.1
Employee Expenses	175.6	187.2	200.1	212.1
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	261.7	305.9	310.9	318.1
Total Operating Expenditure	2,570.6	2,815.6	2,984.6	3,294.2
EBITDA	447.7	436.5	588.5	681.8
Growth (%)	-5.0	-2.5	34.8	15.9
Depreciation	94.7	121.3	131.1	144.0
Interest	34.8	37.7	48.2	37.4
Other Income	64.0	75.6	62.5	56.8
PBT	318.1	277.6	409.2	500.3
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	84.8	104.9	139.1	164.4
PAT	297.3	250.1	332.5	392.8
Growth (%)	10.0	-15.9	33.0	18.1
EPS (₹)	36.7	30.9	41.1	48.5

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit/Loss after Tax	379.6	355.6	332.5	392.8
Add: Depreciation	72.9	121.3	131.1	144.0
Others	-38.4	-122.8	0.0	0.0
(Inc)/dec in Current Assets	193.9	140.1	-14.4	-29.5
Inc/(dec) in Current Liabilities	-40.7	88.6	-130.0	15.6
CF from operating activities	567.3	582.9	319.2	522.9
(Inc)/dec in Investments	3.5	10.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-333.4	-217.8	-199.0	-299.0
Others	3.0	15.7	2.9	0.0
CF from investing activities	-326.9	-192.2	-201.1	-304.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-139.4	-364.4	350.0	-180.0
Dividend paid & dividend tax	-48.6	-32.4	-48.6	-64.8
Inc/(dec) in Sec. premium	0.0	0.0	-449.4	0.0
Others	-29.2	-22.7	0.0	0.0
CF from financing activities	-217.1	-419.5	-148.0	-244.8
Net Cash flow	23.3	-28.8	-29.9	-25.8
Opening Cash	71.3	94.6	65.8	35.9
Cash with bank	9.3	2.9	0.0	0.0
Closing Cash	103.9	68.7	35.9	10.1

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	2,342.9	2,688.8	2,523.2	2,851.3
Total Shareholders funds	2,359.1	2,705.0	2,539.4	2,867.5
Total Debt	818.5	454.1	804.1	624.1
Long Term Provisions	38.7	40.4	38.4	36.4
Other Non-current Liabilities	168.9	218.5	219.5	220.5
Total Liabilities	3,385.2	3,418.0	3,601.4	3,748.5
Assets				
Gross Block	2,606.5	2,848.7	3,048.7	3,348.7
Less: Acc Depreciation	1,075.6	1,196.8	1,327.9	1,471.9
Net Block	1,531.0	1,651.9	1,720.8	1,876.8
Capital WIP	58.8	21.5	20.5	19.5
Intangible assets	0.1	0.1	0.1	0.1
Non Current Investments	293.4	641.5	646.5	651.5
Other non-current assets	30.8	87.8	87.8	87.8
Current Assets				
Inventory	1,242.4	1,037.3	1,042.2	1,049.2
Debtors	166.5	149.0	198.5	220.9
Cash	103.9	68.7	35.9	10.1
Loans & Advances	0.3	0.7	0.7	0.7
Other Current Assets	395.1	144.5	104.5	104.5
Current Liabilities				
Creditors	261.2	208.2	164.8	181.7
Provisions	6.2	5.5	5.5	5.5
Other CL	169.7	171.3	85.6	85.3
Net Current Assets	1,471.2	1,015.1	1,125.7	1,112.7
Total Assets	3,385.2	3,418.0	3,601.4	3,748.5

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	36.7	30.9	41.1	48.5
Cash EPS	48.4	45.9	57.3	66.3
BV	291.5	334.2	313.7	354.3
DPS	6.0	4.0	6.0	8.0
Cash Per Share	132.9	147.9	164.1	181.9
Operating Ratios (%)				
EBITDA Margin	14.8	13.4	16.5	17.1
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	9.9	7.7	9.3	9.9
Inventory days	150	116	106	96
Debtor days	20	17	20	20
Creditor days	32	23	17	17
Return Ratios (%)				
RoE	12.6	9.2	13.1	13.7
RoCE	12.3	11.4	14.4	15.9
Valuation Ratios (x)				
P/E	9.7	11.5	8.7	7.3
EV / EBITDA	8.0	7.3	6.1	5.0
EV / Net Sales	1.2	1.0	1.0	0.9
Market Cap / Sales	1.0	0.9	0.8	0.7
Price to Book Value	1.2	1.1	1.1	1.0
Solvency Ratios				
Debt/EBITDA	1.8	1.0	1.4	0.9
Debt / Equity	0.3	0.2	0.3	0.2
Current Ratio	5.7	5.0	6.1	5.8
Quick Ratio	1.8	1.1	1.4	1.4

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)	394	470	Buy	8,032	22.8	14.1	26.5	30.9	17.3	27.9	14.8	12.7	12.9	19.0	9.7	8.3	2.9	2.7	2.3	2.1	15.3	9.1	17.1	19.1
Dalmia Bharat Sugar (DALSUG)	356	490	Buy	2,884	36.7	30.9	41.1	48.5	9.7	11.5	8.7	7.3	8.0	7.3	6.1	5.0	1.2	1.1	1.1	1.0	12.3	11.4	14.4	15.9
Triveni Engineering (TRIENG)	267	360	Buy	6,448	17.7	16.8	25.7	31.9	15.0	15.8	10.4	8.4	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)	90	115	Buy	1,691	8.2	5.6	7.7	10.0	10.9	16.1	11.6	9.0	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)	246	340	Buy	1,631	21.7	23.8	26.9	34.5	11.3	10.3	9.1	7.1	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)	492	585	Hold	984	62.2	50.2	65.1	77.9	7.9	9.8	7.6	6.3	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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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