

## Sugar prices, distillery volumes to perk up earnings...

**About the stock:** Dhampur Sugar (DSL) is one of the integrated sugar companies in UP with the sugar crushing capacity of 45,500 tonnes crushed per day (tcd), distillery capacity of 500 kilolitre per day (KLD) and 216.5 MW of co-generation capacity (out of this 125 MW is saleable power).

- Dhampur Sugar has expanded distillery capacity by 100 KLD distillery in its Asmoli plant with a capex of ₹ 130 crore. Further, it has also announced capex of 150 KLD distillery at Dhampur (including 50 KLD grain)

**Q3FY22 Results:** DSL reported strong numbers with 22.2% growth in EBITDA.

- Sales were down 17.8% YoY due to lower domestic sugar sales quota
- EBITDA was at ₹ 135.8 crore, dip of 22.2% YoY, with margins at 15.2%
- Consequent PAT was at ₹ 76 crore (up 36.8% YoY)

**What should investors do?** DSL's share price has gone up 93% in the last five years (from ₹ 198 in February 2017 to ₹ 382 in February 2022).

- We expect 2x increase in distillery volumes to boost earnings with CAGR of 21.9% during FY21-24E
- We continue to maintain our BUY rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 475, valuing the business at 1.5x FY23 BV

**Key triggers for future price performance:**

- DSL is increasing its ethanol capacity by 2x to 22 crore litre by FY24, which would result in distillery sales CAGR of 24% to ₹ 1535.4 crore in FY21-24E. The company generate 35% of its revenues from distillery business
- The company would be increasing its sugarcane crushing by 5-10% in next one year. This would help it utilise the additional sugarcane for the production of ethanol through sugarcane juice
- We expect cumulative free cash flow of ₹ 731 crore in the next three years, which would fund capex, reduce debt levels & drive earnings growth

**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 during FY21-24E
- We value the stock at ₹ 135/share with BUY recommendation



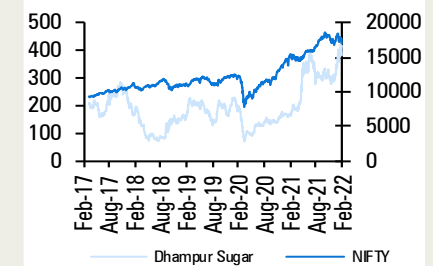
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	2,536.4
Total Debt (FY21)	1,030.8
Cash and Investments (FY21)	79.9
EV	3,487.3
52 week H/L (₹)	431 / 156
Equity capital	66.5
Face value (₹)	10.0

### Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	49.1	49.1	49.1	49.1
FII	2.9	5.8	5.3	5.9
DII	0.7	0.8	0.6	0.6
Others	47.3	44.3	45.0	44.4

### Price Chart



### Recent event & key risks

- Dhampur Sugar would be de-merged in two separate entities
- Key Risk:** (i) Any delay in distillery capacity expansion (ii) Any significant decline in sugar recoveries due to unseasonal rains

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21E	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	3485.3	4156.6	3507.3	4135.6	4416.5	2.0%
EBITDA	362.2	455.4	541.3	597.4	658.0	13.1%
EBITDA Margin %	10.4	11.0	15.4	14.4	14.9	
Net Profit	215.6	228.1	296.9	356.6	413.3	21.9%
EPS (₹)	32.48	34.36	44.73	53.72	62.27	21.9%
P/E	11.8	11.1	8.5	7.1	6.1	
RoNW %	15.8	14.6	16.4	17.0	17.0	
RoCE (%)	10.4	14.8	16.6	17.6	19.5	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q3FY22 Results: Sugar & ethanol realisation boost profits

- Consolidated revenue (net of excise) witnessed a decline of 17.8% to ₹ 895 crore, mainly on account of a dip in sugar sales. Sugar sales were down 14.2% on account of lower domestic sales quota and significant dip in sugar exports in sugar season 2021-22
- The company sold 1.83 lakh tonnes (lt) of sugar during the quarter against 2.5 lt in the corresponding quarter. Given it received domestic sale quota of 1.45 lt, exports account for 38,000 tonnes
- Sugar realisation was up 9.6% to ₹ 35.8/kg. With the reduction of industry wide sugar inventories, sugar prices moved up from August 2021 onwards. The company is holding 2.5 lt of sugar valued at ₹ 32.7/kg against 1.87 lt at ₹ 31.9/kg
- Distillery sales witnessed growth of 25.9% to ₹ 294.3 crore with increase in distillery realisation on account of higher proportion of B-heavy ethanol. However, distillery volume was down from 3.2 crore litre to ₹ 2.7 crore litre during the quarter. Distillery realisation was up 3.6% to ₹ 53 /litre on account of higher proportion of B-heavy ethanol
- Its chemical business volumes dipped 5% to 0.67 lakh kg. However, realisation was sharply up by 62% to ₹ 106.4/kg. Power segment sales volumes was down from 11.8 crore units to 10.6 crore units due to late start of crushing season. Power realisation was up 3.7% to ₹ 3.34/unit
- Operating profit grew 22.2% to ₹135.8 crore led by higher sugar & distillery realisation. With reduction in industry wide sugar inventories, sugar prices have moved up from August 2021 onwards resulted in increase in sugar realisation
- Sugar companies are maximising ethanol production from B-heavy & sugarcane juice routes resulting in increase in distillery realisation. With the robust growth in operating profit and slight decline in interest cost, depreciation provisioning, net profit grew 39.3% to ₹ 76 crore
- The company expanded its distillery capacity by 100 KLD during the quarter. its total capacity is now at 500 KLD (16.5 crore litre). It is further adding 150 KLD distillery capacity (includes 50 KLD grain based). This would expand Dhampur's total combined capacity to 650 KLD (22 crore litre) by December 2022
- Sugar production in the country is likely to be 31.5 million tonnes (MT) in 2021-22 season after the 3.4 MT equivalent diversion towards ethanol. With the increased mobility after the two consecutive years of restricted consumption, sugar demand is likely to increase to 27 MT. The industry would be able to export 6 MT of sugar (5 MT already contracted) with remunerative global sugar prices. This is expected to lead to further reduction in sugar inventories to below 7 MT by September 2022
- The country has achieved ethanol blending (with petrol) levels of 8.1%. total requirement of ethanol/ENA/rectified spirit would reach to 1500 crore litre by 2025 to achieve 20% blending levels. Out of this, 850 crore litre would be sugar (molasses, juice) based ethanol & 650 crore litre would be grain based ethanol. This would lead to the sugar equivalent diversion of 6 MT by 2025
- Currently sugar prices are hovering at ~₹ 34/kg. With the expected reduction in sugar inventories below 7 MT, we expected sugar prices to move to ₹ 37/kg in the next three months. Along with expansion in distillery capacity, firm sugar prices would also drive profitability for sugar companies

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)	398	600	Buy	8360	-3.2	12.8	31.6	36.6	14.8	15.8	19.6	21.4	17.4	15.4	11.7	8.6	3.6	3.2	2.9	2.5	16.4	19.1	20.3	26.8
Dalmia Bharat Sugar (DALSUG)	398	660	Buy	3221	39.9	24.2	12.6	14.8	17.6	18.5	20.5	20.4	11.9	9.6	8.5	7.4	1.7	1.8	1.5	1.3	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	255	350	Buy	6173	-9.9	48.9	20.2	23.3	11.9	14.6	15.4	17.2	21.0	14.1	11.7	9.5	4.4	3.9	3.3	2.8	19.4	19.6	23.5	26.4
Dwarikesh sugar (DZWASUG)	88	135	Buy	1648	24.5	64.8	19.9	40.0	10.9	13.7	15.4	18.8	18.0	10.9	9.1	6.5	3.0	2.4	2.0	1.7	14.4	21.7	22.0	29.1
Avadh Sugar (AVASUG)	553	970	Buy	1106	-12.4	75.6	46.0	12.8	9.6	12.7	14.0	14.8	14.3	8.1	5.6	4.9	2.0	1.7	1.3	1.1	11.5	15.4	18.6	19.3
Dhampur Sugar (DHASUG)	382	475	Buy	2536	5.8	30.2	20.1	15.9	11.0	15.4	14.4	14.9	11.1	8.5	7.1	6.1	1.6	1.4	1.2	1.0	14.8	16.6	17.6	19.5

Source: Company, ICICI Direct Research

Industry wide sugar inventories have come down from 14.5 million tonnes (MT) in September 2019 to 8.2 MT in September 2021. With the expected production & consumption of 31.5 MT & 27.0 MT along with expected exports of 6 MT (5 MT is already contracted), sugar inventories are expected to come down to below 7 MT by September 2022. We believe this would result in uptick in domestic sugar prices to ₹ 37/kg in next three months. Further, most sugar companies are expanding their distillery capacities aggressively to utilise the opportunity in ethanol blending program. Dhampur is also increasing its capacity to 22 crore litre by December 2022, which would result in significant increase in distillery volumes over the next two years. We remain positive on sugar industry as well as Dhampur sugar. We maintain our BUY recommendation on the stock with a target price of ₹ 475 / share (earlier ₹ 430).

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Operating Income	895.0	1,089.3	-17.8	762.5	17.4	Net sales saw de-growth of 17.8% due to de-growth in sugar sales given the company received lower domestic sales quota during the quarter
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	628.4	843.4	-25.5	606.6	3.6	
Employee Expense	39.3	39.7	-1.1	30.8	27.4	
Other operating Expenses	91.5	95.1	-3.8	59.1	54.9	
EBITDA	135.8	111.1	22.2	66.0	105.6	Operating profit witnessed growth of 22.% on account of increase in sugar & distillery realisation along with lower overhead spends due to lower amount of sugar exports
EBITDA Margin (%)	15.2	10.2	497 bps	8.7	651 bps	
Depreciation	21.7	21.8	-0.4	15.6	39.0	
Interest	11.7	12.9	-9.2	17.8	-34.2	With the reduction in debt levels & interest rates, interest cost came down to ₹11.7 crore
Other Income	1.0	1.2	-21.3	2.9	-65.8	
PBT	103.4	77.7	33.1	35.5	191.0	
Tax Outgo	27.4	22.1	23.9	8.8	209.3	
PAT	76.0	55.6	36.8	26.7	185.0	Net profit grew 36.8% led by higher operating profit & lower interest costs
<b>Key Metrics</b>						
Sugar sales volume (in lakh tonnes)	1.8	2.5	-25.3	1.4	27.1	Sugar volumes declined by lower domestic sales quota as well as exports
Sugar realisation (₹ per kg)	35.8	32.6	9.6	34.6	3.5	Sugar realisation was higher by 9.6% given uptick in sugar prices after August 2021
Distillery volumes (in crore litre)	2.7	3.2	-16.3	3.1	-13.4	
Distillery realisation (₹ per litre)	53.0	51.2	3.6	55.5	-4.5	With higher proportion of B-heavy ethanol, distillery realisation is higher

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	3672.9	3507.3	-4.5	4,135.6	4,135.6	0.0	4,416.5	4,416.5	0.0	We have changed our sugar sales estimates downwards due to lower domestic sugar sales quota for FY22E
EBITDA	510.8	541.3	6.0	561.6	597.4	6.4	605.7	658.0	8.6	With significant reduction in sugar exports by UP based sugar mills, we have assumed lower overhead spends (related to freight)
EBITDA Margin (%)	13.9	15.4	153 bps	13.6	14.4	86 bps	13.7	14.9	118 bps	
PAT	283.7	296.9	4.7	333.1	356.6	7.1	374.9	413.3	10.2	We changed our interest cost estimates upwards for FY22E & downwards for FY23E & FY24E
EPS (₹)	42.7	44.7	4.8	50.2	53.7	7.0	56.5	62.3	10.2	

Source: ICICI Direct Research

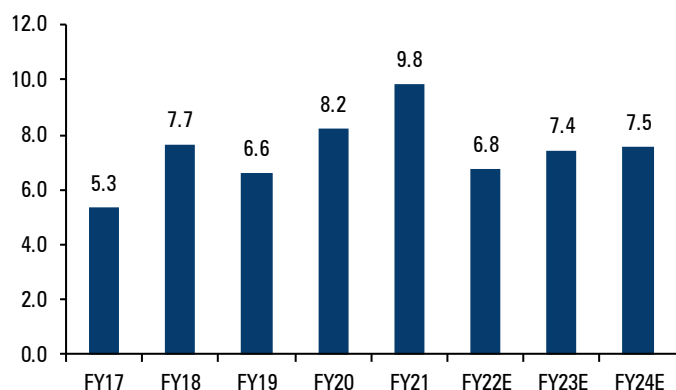
Exhibit 4: Assumptions

	Current						Earlier			Comments
	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Sugar Sold (in tonne)	660,000	821,700	983,000	675,780	742,469	753,086	723,780	742,469	753,086	We have changed our sugar volume estimates downwards due to lower sugar sales quota. We kept our estimates unchanged for FY23E & FY24E
Sugar Price (₹ per tonne)	30,680	32,660	32,610	34,670	35,500	36,000	34,659	35,500	36,000	
Distillery volume	89,995	97,734	110,400	132,000	187,000	221,000	132,000	187,000	221,000	
Distillery price (₹ per KL)	42,450	45,790	52,290	55,950	58,188	58,188	55,950	58,188	58,188	Other estimates remain unchanged
Power Units sold	42.9	35.2	35.4	35.6	36.5	36.5	35.6	36.5	36.5	
Price per unit (₹ per units)	5.2	3.2	3.2	3.3	3.4	3.4	3.3	3.4	3.4	

Source: ICICI Direct Research

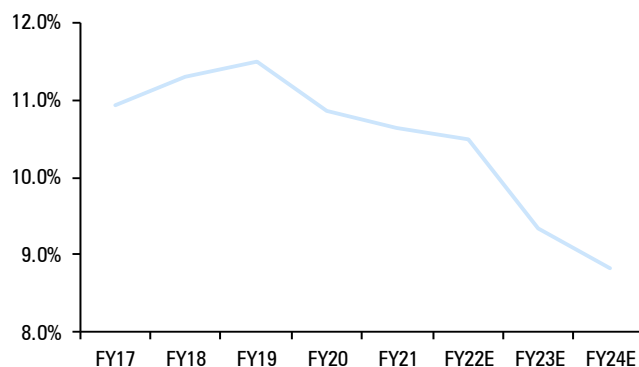
## Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



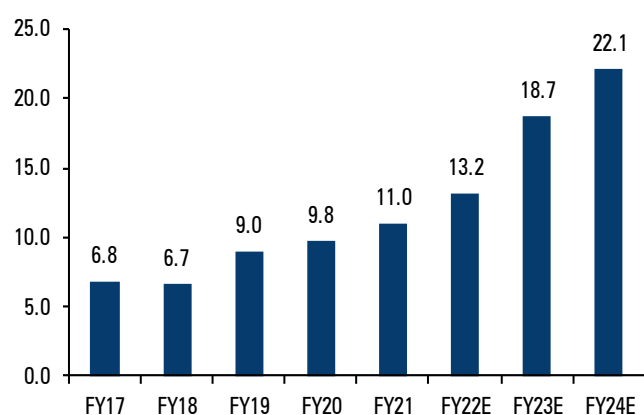
Source: ICICI Direct Research, Company

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



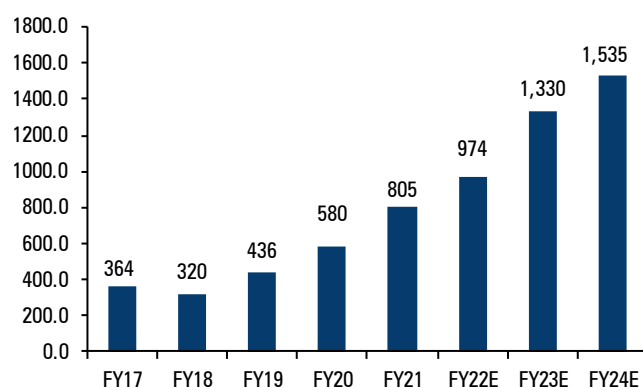
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



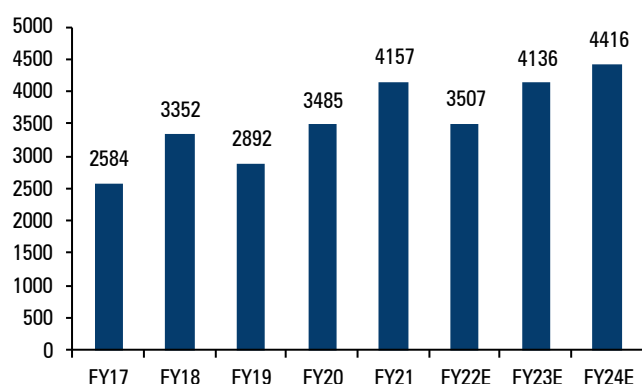
Source: Company, ICICI Direct Research

Exhibit 8: Distillery segment (Ethanol, chemical, liquor) sales (₹ crore)



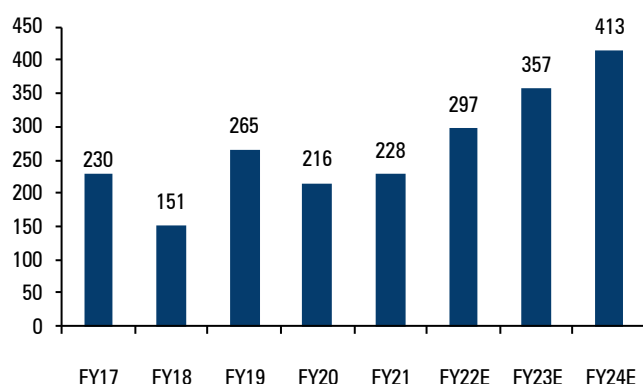
Source: Company, ICICI Direct Research

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	4156.6	19.3	34.4	5.8	11.1	7.6	14.6	14.8
FY22E	3507.3	-15.6	44.7	30.2	8.5	6.4	16.4	16.6
FY23E	4135.6	17.9	53.7	20.1	7.1	5.4	17.0	17.6
FY24E	4416.5	6.8	62.3	15.9	6.1	4.5	17.0	19.5

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 12: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Total Operating Income</b>	<b>4,156.6</b>	<b>3,507.3</b>	<b>4,135.6</b>	<b>4,416.5</b>
Growth (%)	19.3	-15.6	17.9	6.8
Raw Material Expenses	3,225.7	2,363.7	3,016.6	3,217.6
Employee Expenses	147.1	149.5	158.4	164.8
Other expenses	328.4	302.3	285.4	295.9
Total Operating Expenditure	3,701.2	2,815.5	3,538.3	3,758.5
<b>EBITDA</b>	<b>455.4</b>	<b>541.3</b>	<b>597.4</b>	<b>658.0</b>
Growth (%)	25.7	18.9	10.4	10.1
Depreciation	77.7	83.2	93.1	86.9
Interest	79.9	71.4	48.7	34.5
Other Income	17.5	12.4	13.6	10.9
PBT	297.8	386.7	455.6	536.6
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	86.2	102.1	112.6	134.1
<b>PAT</b>	<b>228.1</b>	<b>296.9</b>	<b>356.6</b>	<b>413.3</b>
Growth (%)	5.8	30.2	20.1	15.9
EPS (₹)	34.4	44.7	53.7	62.3

Source: Company, ICICI Direct Research

### Exhibit 13: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	228.1	296.9	356.6	413.3
Add: Depreciation	77.7	83.2	93.1	86.9
Add: Interest	0.0	0.0	0.0	0.0
(Inc)/dec in Current Assets	450.9	-76.2	-52.2	84.7
Inc/(dec) in Current Liabilities	-10.0	-21.4	116.7	-37.2
<b>CF from operating activities</b>	<b>746.6</b>	<b>282.6</b>	<b>514.2</b>	<b>547.7</b>
(Inc)/dec in Investments	3.4	-5.0	-5.0	-5.0
(Inc)/dec in Fixed Assets	-69.0	-213.2	-233.1	-166.9
Others	-2.4	7.8	0.0	0.0
<b>CF from investing activities</b>	<b>-68.0</b>	<b>-210.5</b>	<b>-238.1</b>	<b>-171.9</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-586.6	-80.0	-202.0	-289.0
Dividend paid & dividend tax	-39.9	-39.9	-59.8	-79.7
Inc/(dec) in Sec. premium	10.2	-10.7	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-616.3</b>	<b>-130.5</b>	<b>-261.8</b>	<b>-368.7</b>
Net Cash flow	62.3	-58.5	14.3	7.1
Opening Cash	9.9	72.1	13.7	28.0
Cash & cash equivalents	0.0	0.0	0.0	0.0
Cash with bank	7.8	0.0	0.0	0.0
<b>Closing Cash</b>	<b>79.9</b>	<b>13.7</b>	<b>28.0</b>	<b>35.0</b>

Source: Company, ICICI Direct Research

### Exhibit 14: Balance Sheet ₹ crore

	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	66.5	66.5	66.5	66.5
Reserve and Surplus	1,493.6	1,740.0	2,036.8	2,370.4
Total Shareholders funds	1,560.1	1,806.4	2,103.2	2,436.8
Total Debt	1,030.8	950.8	748.8	459.8
Long Term Provisions	32.8	30.8	28.8	26.8
Other Non-current Liabilities	54.0	54.0	54.0	54.0
<b>Total Liabilities</b>	<b>2,677.6</b>	<b>2,842.0</b>	<b>2,934.8</b>	<b>2,977.4</b>
<b>Assets</b>				
Gross Block	2,691.7	2,895.0	3,118.1	3,275.0
Less: Acc Depreciation	1,080.1	1,163.3	1,256.4	1,343.3
Net Block	1,611.7	1,731.7	1,861.7	1,931.7
Capital WIP	21.2	31.2	41.2	51.2
Intangible assets	2.8	2.8	2.8	2.8
Non Current Investments	2.6	7.6	12.6	17.6
Other non-current assets	27.2	27.2	27.2	27.2
<b>Current Assets</b>				
Inventory	1,292.6	1,412.7	1,436.0	1,349.5
Debtors	296.7	272.8	321.7	343.5
Cash	79.9	13.7	28.0	35.0
Loans & Advances	8.0	8.0	8.0	8.0
Other Current Assets	128.3	108.3	88.3	68.3
<b>Current Liabilities</b>				
Creditors	599.0	624.4	664.6	547.1
Provisions	9.2	9.2	9.2	9.2
Other CL	185.0	140.2	218.8	301.1
Net Current Assets	1,012.2	1,041.6	989.4	946.9
<b>Total Assets</b>	<b>2,677.6</b>	<b>2,842.0</b>	<b>2,934.8</b>	<b>2,977.4</b>

Source: Company, ICICI Direct Research

### Exhibit 15: Key ratios

	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	34.4	44.7	53.7	62.3
Cash EPS	46.0	57.2	67.7	75.3
BV	234.8	271.8	316.5	366.7
DPS	6.0	6.0	9.0	12.0
Cash Per Share	162.5	175.1	189.1	202.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.0	15.4	14.4	14.9
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	5.5	8.5	8.6	9.4
Inventory days	113.5	147.0	126.7	111.5
Debtor days	26.1	28.4	28.4	28.4
Creditor days	52.6	65.0	58.7	45.2
<b>Return Ratios (%)</b>				
RoE	14.6	16.4	17.0	17.0
RoCE	14.8	16.6	17.6	19.5
<b>Valuation Ratios (x)</b>				
P/E	11.1	8.5	7.1	6.1
EV / EBITDA	7.6	6.4	5.4	4.5
EV / Net Sales	0.8	1.0	0.8	0.7
Market Cap / Sales	0.6	0.7	0.6	0.6
Price to Book Value	1.6	1.4	1.2	1.0
<b>Solvency Ratios</b>				
Debt/EBITDA	2.3	1.8	1.3	0.7
Debt / Equity	0.7	0.5	0.4	0.2
Current Ratio	2.7	2.5	2.3	2.4
Quick Ratio	0.7	0.5	0.5	0.6

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)	398	600	Buy	8,360	22.8	25.8	33.9	46.3	17.4	15.4	11.7	8.6	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)	398	660	Buy	3,221	33.4	41.5	46.7	53.6	11.9	9.6	8.5	7.4	9.5	8.8	7.1	6.2	1.7	1.8	1.5	1.3	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	255	350	Buy	6,173	12.2	18.1	21.8	26.9	21.0	14.1	11.7	9.5	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)	88	135	Buy	1,648	4.9	8.0	9.6	13.4	18.0	10.9	9.1	6.5	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)	382	475	Buy	2,536	34.4	44.7	53.7	62.3	11.1	8.5	7.1	6.1	7.6	6.4	5.4	4.5	1.6	1.4	1.2	1.0	14.8	16.6	17.6	19.5
Avadh Sugar (AVASUG)	553	970	Buy	1,106	38.8	68.1	99.4	112.2	14.3	8.1	5.6	4.9	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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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