

## Steady cash flows to deleverage balance sheet...

Dhampur Sugar (DSL) reported strong sales growth of 20% led by 22% growth in sugar sales and 30% growth in distillery sales. However, power revenues were down 74% due to lower volumes, impacted by cut in power tariff by Uttar Pradesh Electricity Regulatory Commission (UPERC) earlier this year. Sugar volumes increased 36% to 2.59 lakh tonnes (lt) on account of 0.8 lt of raw sugar exports during the quarter. Further, DSL was allocated additional 0.58 lt of sugar in Q4, which it subsequently contracted. Distillery volumes were down 4.4% to 2.4 crore litre due to lower offtake by OMCs impacted by lockdown situation at the end of March. Ethanol realisation was up 9.4% with increased proportion of B heavy ethanol sales. DSL sold 16.3 crore power unit with average realisation of ₹ 3.2/unit. Volumes, realisation were down 17%, 40%, respectively, impacted by power tariff reduction.

### Impact of lockdown on sugar sector

Though sugar manufacturing continued during lockdown period, sugar consumption in the country declined by 1.0-1.5 million tonnes (MT) with a substantial reduction in ice creams & carbonated drinks sales. Moreover, sugar exports, which were expected to touch 6.0 MT in current sugar season, are now likely to be restricted to 4.5 MT. Both these factors would lead to higher than expected sugar inventory at 11.0 MT by end of September 2020. We believe the government would continue export subsidy next year also, which could help industry reduce sugar inventory levels by 5-6 MT. Moreover, the industry would need to aggressively divert sugarcane towards B heavy ethanol (2 MT of sugar sacrifice possible). There is also a possibility of increase in MSP to ₹ 33 /kg as per recommendation of Niti Aayog task force, which could improve earnings of sugar companies.

### Stable earnings with higher distillery volumes, MSP in place

With 400 KLD distillery capacity, DSL has the capacity to reach 13.2 crore litre of ethanol volumes, which can generate ~₹ 650 crore of revenue. The company is aggressively diverting sugarcane towards B heavy molasses, which would help it reduce the surplus sugar inventory. Further, we believe sugar MSP is place would work as cushion for sugar companies at the time of excess sugar production. We expect DSL to generate stable earnings & cash flow, going forward.

### Valuation & Outlook

With the steady reduction in sugar inventory through exports and increased diversion towards B heavy ethanol, we expect the company to generate ~₹ 280 crore of cash flows in FY21E, which would help it reduce debt. Though the lockdown has not significantly impacted earnings of sugar companies, it has resulted in increase in sugar inventory in system, which is likely to impact DSL's ability to reduce debt aggressively. The stock is trading at extremely attractive multiples of 3x FY21 earnings. We value the stock at 4x FY21 earning with a revised target price of ₹ 155/share.



#### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	719.0
Total Debt (FY20)	1,617.5
Cash and Investments (FY20)	16.4
EV	2,320.1
52 week H/L (₹)	245 / 65.5
Equity capital	66.5
Face value (₹)	10.0

#### Key Highlights

- Strong sugar volumes growth of 36% aided by exports ; sugar realisation marginally up
- Distillery volumes down 4% as OMCs could not lift ethanol at the end of March due to lockdown
- Maintain BUY rating on stock with revised target price of ₹ 155/share

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#### Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	3351.8	2954.1	3485.3	3650.3	3800.5	4.4%
EBITDA	354.5	462.8	362.2	439.2	426.5	8.5%
EBITDA Margin %	10.6	15.7	10.4	12.0	11.2	
Net Profit	151.3	250.9	215.6	248.0	260.2	9.9%
EPS (₹)	22.79	37.80	32.48	37.37	39.20	
P/E	4.7	2.9	3.3	2.9	2.8	
RoNW %	15.1	20.5	15.8	15.9	14.8	
RoCE (%)	12.6	13.7	10.4	12.9	13.3	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	1,066.5	888.4	20.0	801.0	33.1	Net sales increased 20% led by higher sugar exports volume & small uptick in sugar realisation
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	811.4	575.0	41.1	593.6	36.7	
Employee Expense	40.8	44.1	-7.6	38.5	5.9	
Other operating Expenses	95.9	88.7	8.1	78.0	23.0	
EBITDA	118.4	180.5	-34.4	90.9	30.2	
EBITDA Margin (%)	11.1	20.3	-922 bps	11.3	-25 bps	Operating margins down mainly due to reduced power realisation after UP electricity board cut the tariff earlier this year. Moreover, due to high diversion towards B heavy molasses, unrealised profit is sitting in inventory
Depreciation	21.3	27.5	-22.7	18.9	12.7	
Interest	25.4	28.2	-9.8	20.5	24.2	
Other Income	5.0	12.3	-59.8	1.7	190.8	
PBT	76.7	137.1	-44.1	53.3	43.9	
Tax Outgo	-30.5	28.3	-207.6	2.2	-1,463.3	
PAT	104.1	108.8	-4.4	51.0	103.9	Flat earnings despite lower operating profit due to tax reversal
<b>Key Metrics</b>						
Sugar sales volume (in lakh tonnes)	2.6	1.9	36.3	1.8	43.9	Sugar volume increased 36% with higher volumes from exports
Sugar realisation (₹ per kg)	32.4	31.4	3.1	32.8	-1.3	Marginal increase in domestic sugar realisation
Distillery volumes (in crore litre)	2.4	2.5	-4.4	1.9	25.3	Decline in ethanol volume as lifting of ethanol stopped by OMCs at the end of March due to lockdown across country
Distillery realisation (₹ per litre)	45.8	41.9	9.4	44.3	3.4	Increase in distillery realisations due to higher B diversion towards B heavy ethanol

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E		% change	FY22E		Comments
	Old	New		New		
Net sales	3580.3	3650.3	2.0	3,800.5		We change domestic realisation estimates due to fall in sugar demand impacted by lockdown. We introduce FY22 numbers
EBITDA	521.4	439.2	-15.8	426.5		
EBITDA Margin (%)	14.6	12.0	-253 bps	11.2		Lower realisation to impact margins & earnings
PAT	301.7	248.0	-17.8	260.2		
EPS (₹)	45.45	37.37	-17.8	37.37		

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current			Earlier			Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	
Sugar Sold (in tonne)	765,000	660,000	821,700	780,615	807,040	776,160	
Sugar Price (₹ per tonne)	35,592	30,680	32,660	32,577	32,600	33,000	We cut our sugar price estimates
Distillery volume	74,110	106,224	114,351	120,000	128,000	124,000	
Distillery price (₹ per KL)	43,117	41,028	45,790	48,080	49,522	52,166	
Power Units sold	43.3	42.9	35.2	40.5	42.0	45.0	
Price per unit (₹ per units)	5.0	5.2	3.2	3.3	3.3	3.3	

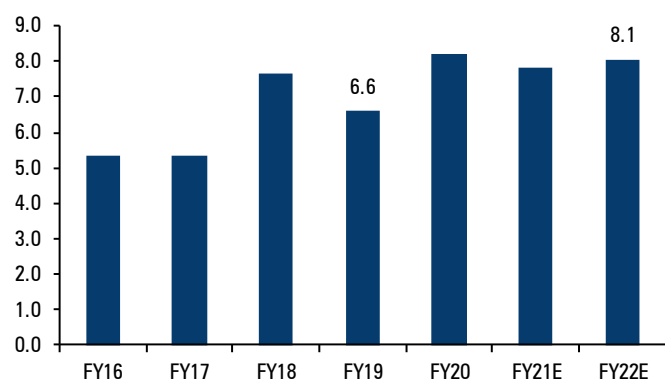
Source: Company, ICICI Direct Research

## Conference call Highlights

- Net sales were up 20% aided by 22% growth in sugar sales & 30% growth in distillery sales. However, power revenues were down significantly due to revision in power tariffs and dip in power volumes
- Sugar sales were aided by strong volume growth of 36% driven by 0.8 lakh tonnes (lt) of raw sugar exports during the quarter. Sugar realisation was up marginally 3%. In the sugar export framework of maximum admissible export quota (MAEQ), the company received 2.14 lt of sugar export quota, which has been contracted entirely with a substantial portion of quantities being exported
- The company's sugar production in FY20 was 7.66 lt against 8.0 lt last year despite similar crushing. This is mainly due to higher diversion towards B heavy ethanol. Like to like recovery rates were higher by 10 bps
- Despite lower sugar consumption, the company has been able to sell its entire April and May quota. For April, May and June, the company has been allocated 1.74 lt of quota
- Distillery volumes declined 4% as OMCs could not lift ethanol at the end of March due to lockdown across country. Distillery realisation was up by 9% as DSL sold higher volumes of B heavy ethanol, which is priced at ₹ 54/litre. C heavy ethanol is priced at ₹ 43/litre
- Distillery volumes were negatively impacted in the first 10-15 days of lockdown as most OMC depots in UP were full due to substantial dip in petrol sales. However, the company quickly renegotiated contracts to supply ethanol to depots located in other states
- The company has contracted to sell B heavy ethanol to OMCs (8 crore litre in first tender and 0.26 crore litre in second tender). In total, the company is expected to sell 11-12 crore litre of ethanol/ENA in FY21
- Power volumes were down 17% while realisation were down 40% due to revision in power tariffs by UPERC earlier
- The company forayed into the hand sanitiser category. Though margins are attractive in this category, volumes are still miniscule in the domestic market. The government has allowed export of hand sanitisers, which can create an opportunity to scale up business. The company launched a hand sanitiser product under 'Dhampure' brand at a price of ₹ 70 for 200 ml
- Long term and working capital debt for the company was at ₹ 540 crore and ₹ 1200, respectively. Out of the debt, ₹ 600 crore is at the concessional interest rate
- Sugar consumption in the country has been impacted as sales of ice creams and carbonated drinks fell significantly during lockdown. Sugar consumption in the current sugar year is expected to be ~25 million tonnes (1-1.5 lt lower). Current sugar prices are prevailing at ₹ 31.5 litre vs. ₹ 32.5/litre in the pre-lockdown period
- The management expect sugar exports in the current sugar season to be ~4.2-4.5 million tonnes. Moreover, sugar export subsidy is also expected to continue for the next sugar year

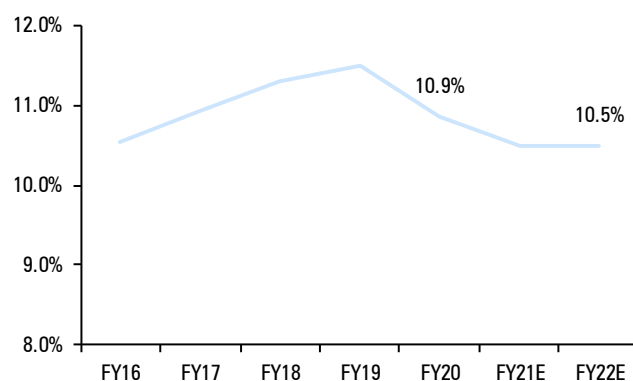
## Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



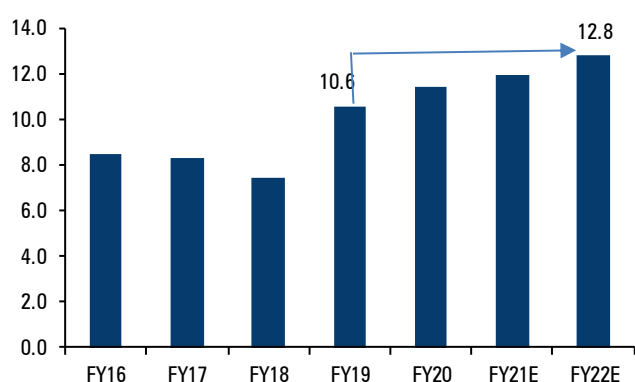
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



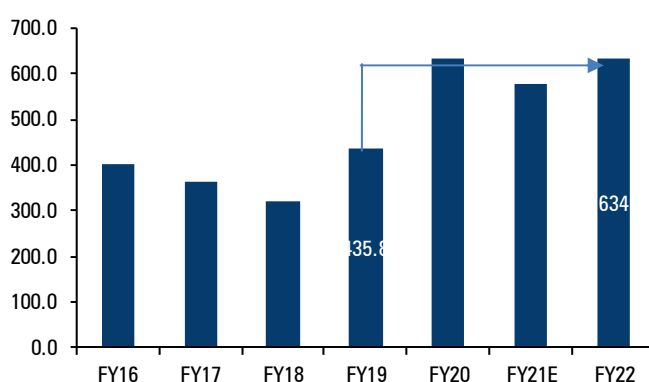
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



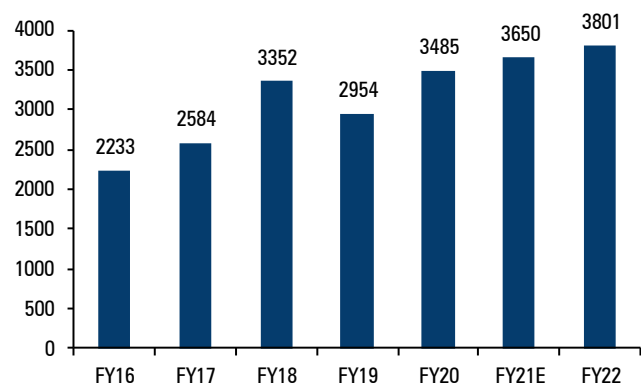
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



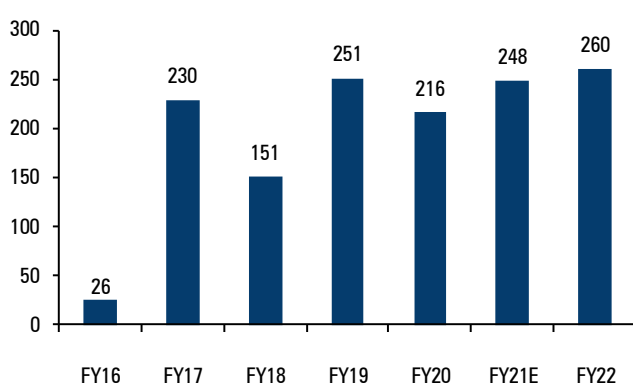
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)



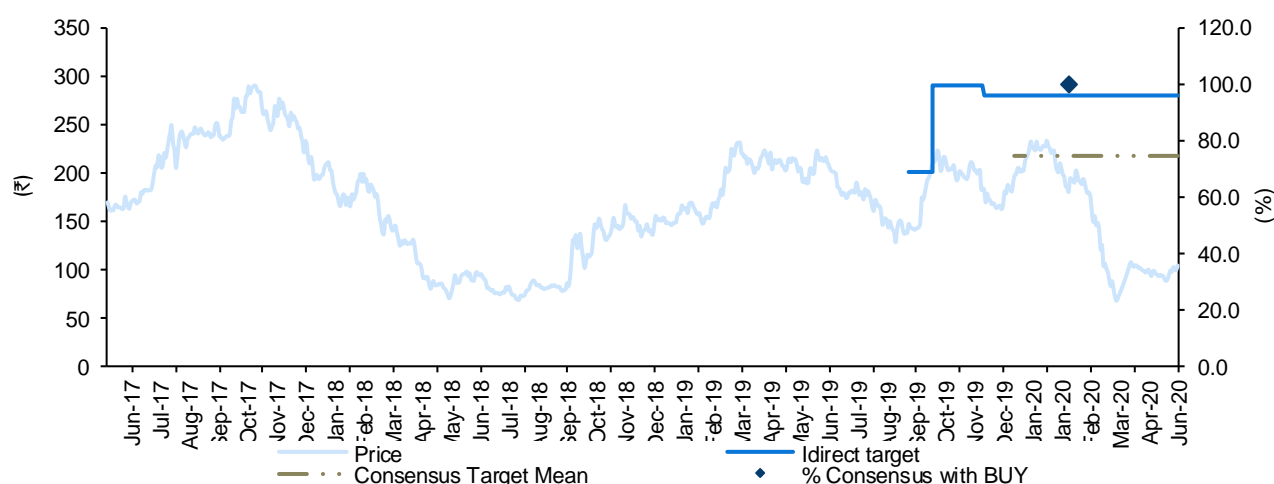
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2954.1	-11.9	37.80	65.9	2.9	5.1	20.5	13.7
FY20	3485.3	18.0	32.48	-14.1	3.3	6.3	15.8	10.4
FY21E	3650.3	4.7	37.37	15.0	2.9	4.9	15.9	12.9
FY22E	3800.5	4.1	39.20	4.9	2.8	4.1	14.8	13.3

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Goel Investments Ltd	31-Mar-20	16.1	10.7	0.0
2	Goel Anil Kumar	31-Dec-19	10.5	7.0	0.0
3	Sonitron Ltd	31-Mar-20	7.4	4.9	0.0
4	Goel Gaurav	31-Mar-20	6.5	4.3	0.0
5	Shudh Edible Product	31-Mar-20	6.5	4.3	0.0
6	Goel Gautam	31-Mar-20	6.4	4.2	0.0
7	Saraswati Properties	31-Mar-20	4.9	3.3	0.0
8	Goel Seema	31-Dec-19	3.7	2.5	0.0
9	Reliance Capital Tru	30-Apr-20	2.2	1.4	0.0
10	Dimensional Fund Adv	31-Mar-20	1.4	0.9	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	49.1	49.1	49.1	49.1	49.1
FII	3.9	4.7	4.0	2.8	2.4
DII	1.3	0.9	2.2	2.8	2.9
Others	45.7	45.3	44.8	45.4	45.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Total Operating Income</b>	<b>2,954.1</b>	<b>3,485.3</b>	<b>3,650.3</b>	<b>3,800.5</b>
Growth (%)	-11.9	18.0	4.7	4.1
Raw Material Expenses	2,077.8	2,714.9	2,798.6	2,963.6
Employee Expenses	149.7	140.7	157.0	163.4
Other expenses	263.8	267.6	255.5	247.0
Total Operating Expenditure	2,491.3	3,123.2	3,211.1	3,374.0
<b>EBITDA</b>	<b>462.8</b>	<b>362.2</b>	<b>439.2</b>	<b>426.5</b>
Growth (%)	30.5	-21.7	21.3	-2.9
Depreciation	70.8	76.0	74.5	74.9
Interest	91.3	100.6	95.4	70.7
Other Income	18.4	30.1	33.2	36.5
PBT	300.7	185.5	269.3	280.9
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	68.2	-8.4	54.4	57.1
<b>PAT</b>	<b>250.9</b>	<b>215.6</b>	<b>248.0</b>	<b>260.2</b>
Growth (%)	65.9	-14.1	15.0	4.9
EPS (₹)	37.8	32.5	37.4	39.2

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	319.2	207.3	248.0	260.2
Add: Depreciation	70.8	76.0	74.5	74.9
Add: Interest	91.3	100.6	0.0	0.0
(Inc)/dec in Current Assets	-756.4	59.6	121.8	146.1
Inc/(dec) in Current Liabilities	148.3	-55.9	-161.8	65.4
<b>CF from operating activities</b>	<b>-201.9</b>	<b>338.2</b>	<b>282.5</b>	<b>546.6</b>
(Inc)/dec in Investments	-11.8	0.1	-5.0	-5.0
(Inc)/dec in Fixed Assets	-81.1	-59.8	-94.5	-94.9
Others	1.6	11.2	16.5	0.0
<b>CF from investing activities</b>	<b>-91.3</b>	<b>-48.5</b>	<b>-83.0</b>	<b>-99.9</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	398.9	-94.4	-150.0	-380.0
Dividend paid & dividend tax	-27.6	-71.7	-46.5	-59.8
Inc/(dec) in Sec. premium	0.0	-6.8	-0.5	0.0
Others	-103.7	-120.0	0.0	0.0
<b>CF from financing activities</b>	<b>267.6</b>	<b>-292.9</b>	<b>-197.0</b>	<b>-439.8</b>
Net Cash flow	-25.6	-3.2	2.5	6.9
Opening Cash	38.8	13.2	9.9	12.4
Cash & cash equivalents	0.0	-0.1	0.0	0.0
Cash with bank	7.1	6.5	0.0	0.0
<b>Closing Cash</b>	<b>20.2</b>	<b>16.4</b>	<b>12.4</b>	<b>19.2</b>

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	66.5	66.5	66.5	66.5
Reserve and Surplus	1,158.3	1,295.2	1,496.3	1,696.7
Total Shareholders funds	1,224.7	1,361.7	1,562.7	1,763.1
Total Debt	1,676.0	1,617.5	1,467.5	1,087.5
Long Term Provisions	29.1	32.4	30.4	28.4
Other Non-current Liabilities	64.2	32.3	30.1	30.1
<b>Total Liabilities</b>	<b>2,993.9</b>	<b>3,043.8</b>	<b>3,090.6</b>	<b>2,909.0</b>
<b>Assets</b>				
Gross Block	2,520.3	2,637.1	2,731.6	2,816.5
Less: Acc Depreciation	926.4	1,002.4	1,076.9	1,151.8
Net Block	1,593.9	1,634.7	1,654.7	1,664.7
Capital WIP	34.0	6.8	6.8	16.8
Intangible assets	3.3	2.9	2.9	2.9
Non Current Investments	11.8	2.3	7.3	12.3
Other non-current assets	32.7	29.7	19.7	19.7
<b>Current Assets</b>				
Inventory	1,674.1	1,603.7	1,500.7	1,319.6
Debtors	391.3	343.2	364.4	379.4
Cash	20.2	16.4	12.4	19.2
Loans & Advances	7.7	9.4	9.4	9.4
Other Current Assets	157.8	220.1	180.1	200.1
<b>Current Liabilities</b>				
Creditors	666.4	606.3	523.3	508.4
Provisions	7.6	7.6	7.6	7.6
Other CL	258.8	211.4	136.8	219.1
Net Current Assets	1,318.3	1,367.4	1,399.3	1,192.7
<b>Total Assets</b>	<b>2,993.9</b>	<b>3,043.8</b>	<b>3,090.6</b>	<b>2,909.0</b>

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	37.8	32.5	37.4	39.2
Cash EPS	48.4	43.9	48.5	50.4
BV	184.3	204.9	235.2	265.3
DPS	3.5	9.0	7.0	9.0
Cash Per Share	139.4	150.8	162.1	173.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	15.7	10.4	12.0	11.2
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	8.5	6.2	6.8	6.8
Inventory days	206.9	167.9	150.1	126.7
Debtor days	48.3	35.9	36.4	36.4
Creditor days	82.3	63.5	52.3	48.8
<b>Return Ratios (%)</b>				
RoE	20.5	15.8	15.9	14.8
RoCE	13.7	10.4	12.9	13.3
<b>Valuation Ratios (x)</b>				
P/E	2.9	3.3	2.9	2.8
EV / EBITDA	5.1	6.3	4.9	4.1
EV / Net Sales	0.8	0.7	0.6	0.5
Market Cap / Sales	0.2	0.2	0.2	0.2
Price to Book Value	0.6	0.5	0.5	0.4
<b>Solvency Ratios</b>				
Debt/EBITDA	3.6	4.5	3.3	2.5
Debt / Equity	1.4	1.2	0.9	0.6
Current Ratio	3.0	3.4	3.3	2.9
Quick Ratio	0.8	0.9	0.9	0.9

Source: Company, ICICI Direct Research

**Exhibit 18: ICICI Direct coverage universe (Sugar)**

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
Balrampur Chini (BALCHI)	112	170	Buy	2,736	25.2	20.5	17.7	4.4	5.5	6.3	6.0	5.3	5.6	1.2	1.1	1.0	16.3	17.0	14.3
Dhampur Sugar (DHASUG)	108	155	Buy	719	37.8	32.5	37.4	2.9	3.3	2.9	5.1	6.3	4.9	0.6	0.5	0.5	13.7	10.4	12.9
Dwarkanesh sugar (DVASUG)	19	50	Buy	716	5.1	4.6	6.9	3.8	4.2	2.8	10.2	8.8	6.7	1.5	1.4	1.2	11.8	11.5	14.8
Triveni Engineering (TRIENG)	45	100	Buy	1,883	8.4	14.9	17.3	5.4	3.0	2.6	11.0	4.5	4.2	1.7	1.3	1.0	11.1	22.5	22.1
Dalmia Bharat Sugar (DALSUG)	75	150	Buy	931	21.6	27.1	24.6	3.5	2.8	3.0	7.0	5.8	5.2	0.6	0.5	0.5	9.8	13.1	10.9

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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