

Sugar exports, distillery sales to perk up cash flows

Dalmia Bharat sugar (DBSL) reported a strong performance with 51% revenue growth on the back of 57.8% growth in sugar sales, 43.7% growth in distillery sales. The company sold 2.03 lakh tonnes (lt) of sugar in Q1, 50% higher compared to corresponding quarter. Higher volumes were aided by 1.0 lt of export during the quarter. In total, DBSL has been allocated 1.75 lt of export quota in 2019-20 sugar season. Of this, it has already exported 1.27 lt and rest 0.48 lt would be exported in September quarter. In domestic sales, the company sold 1.02 lt sugar (small quantity of March quota would have been sold in Q1). Strong distillery sales were aided by 17% increase in ethanol volume to 2.3 crore litre. Power sales were down 1.3% to ₹ 78.1 crore mainly due to 10% de-growth in power volumes (sold 9 crore units). Operating profit increased 106.7% to ₹ 197 crore with higher sugar and ethanol volumes. Net profit increased 118.7% to ₹ 125.9 crore driven by higher operating profits & stable interest cost, depreciation provisioning.

Higher distillery volumes, exports to drive growth

The company has commissioned an insinuation boiler in Jawaharpur, UP in Q4FY20. This would increase operational days from 280 to 330, which would result in additional production of 0.6 crore litre of ethanol. Moreover, the company has aggressively diverted sugarcane toward B heavy ethanol 2019-20 sugar season, which would have helped it produce less sugar & more ethanol. With the increase in capacity and higher availability of B heavy molasses, we expect distillery volume to increase 15.8% to 7.9 crore litre in FY21. Further, DBSL would be exporting 1.75 lt of sugar in 2019-20 season (after additional allocation of export quota). This would further reduce the sugar inventory for the company. We expect revenue and earnings CAGR of 8.8% and 9%, respectively, in FY20-22E. Also, expected increase in MSP by ₹ 2/kg & extensions of export subsidy for 2020-21 sugar season would ensure stable earnings for sugar companies.

Healthy cash flow generation to further reduce debt

With the additional sugar exports and higher sugarcane diversion towards B heavy ethanol, the company would be able to reduce its sugar inventory by ~50,000 tonnes in next two years. We expect DBSL to generate ₹ 287 crore and ₹ 351 crore of operating cash flows in FY21E and F22E, respectively, which would reduce peak working capital debt requirement by ₹ 440 crore.

Valuation & Outlook

With the optimum by-product capacities, DBSL has brought stability in earnings & cash flows. The company has investments (current & non-current) of ~₹ 400 crore on the books. Given stable earnings, reducing working capital debt requirement & investments, the stock is trading at attractive multiple of 4.2x its FY21E earnings. We value the stock at 6x FY21 earnings with a revise target price of ₹ 160 and **BUY** recommendation.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,003.6
Total Debt (FY20)	1,192.6
Cash and Investments (FY20)	67.1
EV	2,129.1
52 week H/L (₹)	134 / 40
Equity capital	16.2
Face value (₹)	2.0

Key Highlights

- Revenue increased 51% on the back of strong sugar volumes aided by higher sugar exports
- Distillery volumes increased 17% drive by installation of insinuation boiler in last quarter
- Maintain BUY recommendation on stock with target price of ₹ 160

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	2244.4	2018.5	2034.7	2519.3	2406.9	8.8%
EBITDA	234.2	265.7	260.5	266.3	278.7	3.4%
EBITDA Margin %	10.4	13.2	12.8	10.6	11.6	
Net Profit	122.3	175.2	193.2	216.7	229.5	9.0%
EPS (₹)	15.11	21.64	23.87	26.77	28.36	
P/E	8.2	5.7	5.2	4.6	4.4	
RoNW %	8.1	11.4	9.0	12.7	12.0	
RoCE (%)	8.1	9.8	11.8	11.9	12.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	881.5	583.7	51.0	550.1	60.3	The strong revenue growth was led by robust growth in sugar as well as distillery business. The strong volume growth in sugar segment was aided by higher exports
Other Operating Income	16.5	13.8	N.A.	16.5	N.A.	
Raw Material Expenses	587.8	396.4	48.3	345.9	69.9	
Employee Expense	30.3	29.4	3.2	37.8	-19.8	
Other operating Expenses	66.4	62.6	6.2	70.5	-5.7	
EBITDA	197.0	95.3	106.7	95.9	105.4	The steep volume growth in both segments led to robust growth in operating profit
EBITDA Margin (%)	22.3	16.3	602 bps	17.4	491 bps	
Depreciation	14.5	12.6	15.0	15.1	-3.5	
Interest	25.6	24.6	4.1	25.8	-0.7	
Other Income	16.5	13.8	19.2	16.5	-0.2	
PBT	173.3	71.9	141.1	71.5	142.2	
Tax Outgo	47.4	14.3	231.4	9.5	398.7	
PAT	125.9	57.6	118.7	62.0	102.9	The increase in profitability was aided by higher operating profits & stable interest cost, depreciation provisioning
Key Metrics						
Sugar sales volume (in lakh tonnes)	2.0	1.3	50.9	1.3	56.2	Sugar volumes increased by 1.0 lakh tonnes of exports (skewed in Q1)
Distillery volumes (in crore litre)	2.3	2.0	17.0	1.9	23.2	The higher distillery volumes was aided by installation of insinuation boiler at one of its plant
Power volumes (in cr unit)	9	10	-10.0	12	-25.0	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ (Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Net sales	2259.1	2519.3	11.5	2,345.0	2,520.3	7.5	We change our estimates after the company was allocated additional export quota this quarter
EBITDA	254.7	266.3	4.6	275.9	278.7	1.0	
EBITDA Margin (%)	11.3	10.6	-70 bps	11.8	11.1	-71 bps	
Adjusted PAT	202.2	216.7	7.2	217.9	229.5	5.3	
EPS (₹)	25.0	26.8	7.2	26.9	28.4	5.3	

Source: Company, ICICI Direct Research

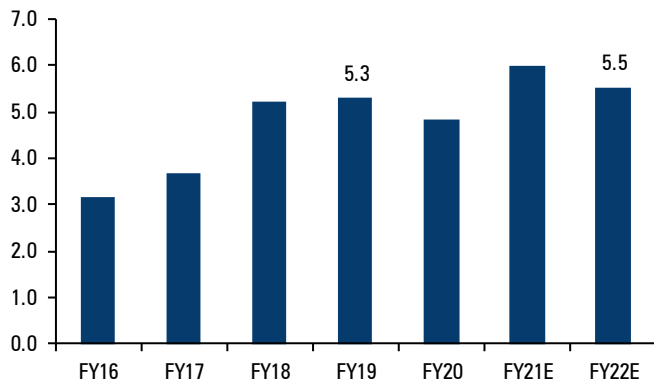
Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sugar Sold (in tonne)	524,000	531,000	485,000	601,400	553,288	533,500	538,835	We change our sugar volume estimates on the back of additional exports allocated to the company in last three months
Sugar Price (₹ per tonne)	36,442	30,680	33,000	33,000	33,300	32,500	33,000	Changing our sugar realisation estimates marginally for FY21 with the expected increase in MSP from october 1 onwards
Distillery volume	28,810	48,030	68,400	79,200	81,600	76,800	81,600	We marginally change our distillery volume estimates
Distillery price (₹ per KL)	43,877	44,705	48,862	49,010	49,649	49,010	49,649	
Power Units sold	35.0	38.0	33.0	35.2	36.3	35.8	36.9	
Price per unit (₹ per units)	5.5	5.2	3.7	3.5	3.7	3.5	3.7	

Source: Company, ICICI Direct Research

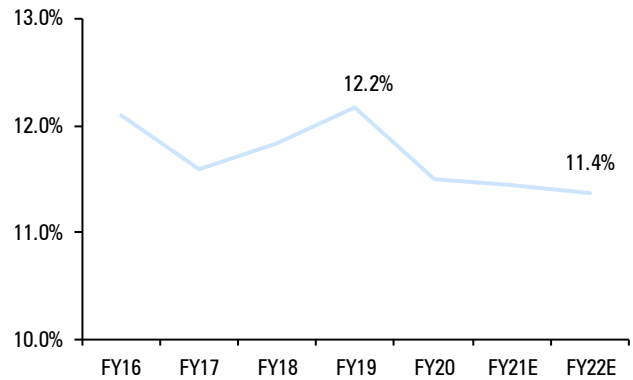
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



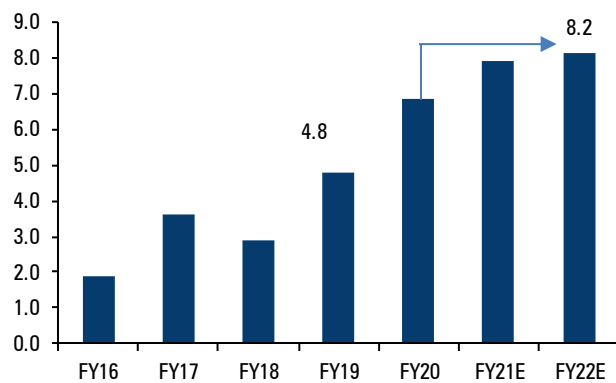
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



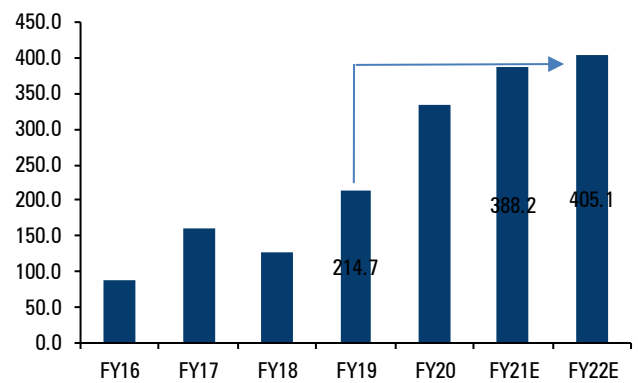
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



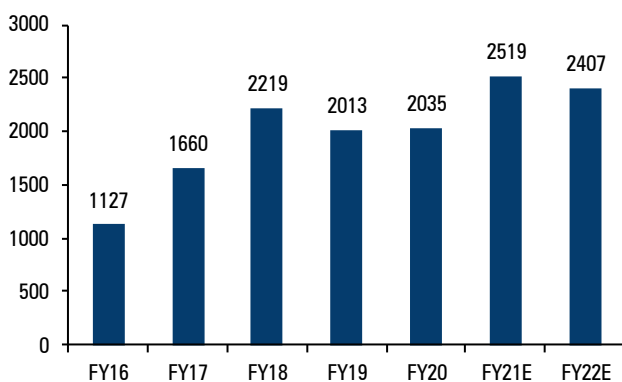
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



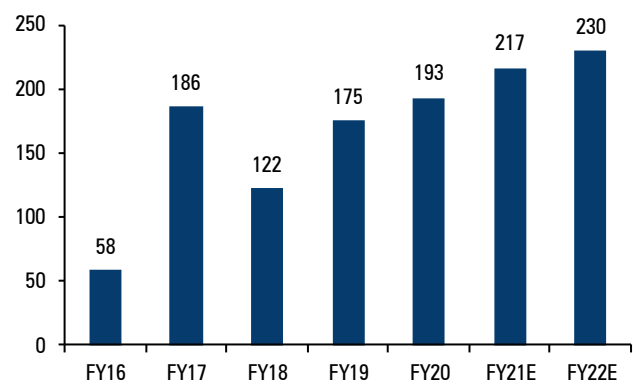
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)



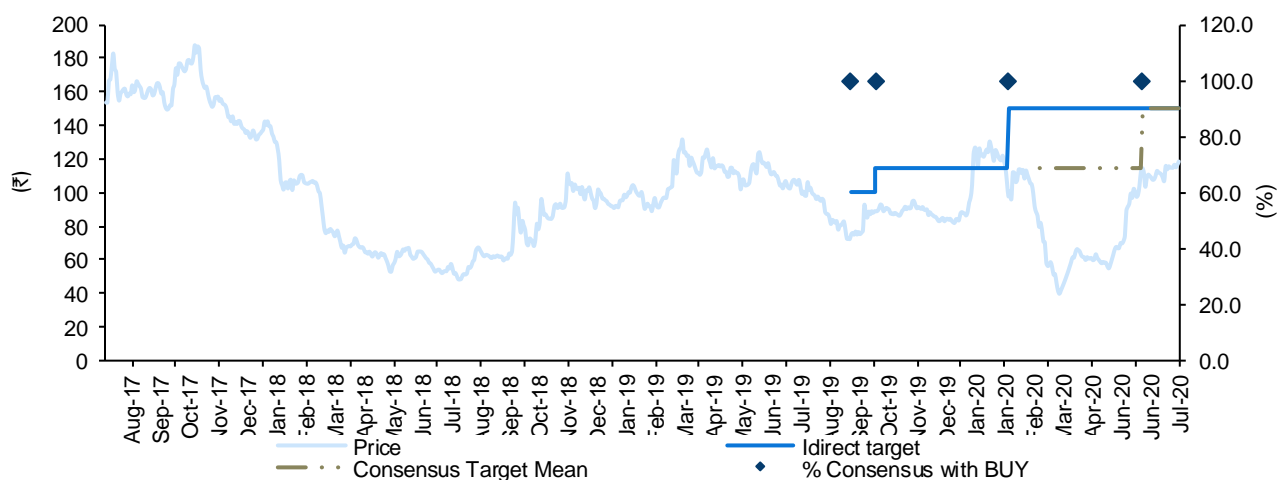
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	Adj. EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2018.5	-10.1	21.64	43.2	5.7	7.2	11.4	9.8
FY20	2034.7	0.8	16.95	-21.7	5.2	8.1	9.0	11.8
FY21E	2519.3	23.8	26.77	57.9	4.6	7.2	12.7	11.9
FY22E	2406.9	-4.5	28.36	5.9	4.4	5.9	12.0	12.1

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	Samagama Holdings &	30-Jun-20	44.3	35.9	0.0
2	Dalmia Bharat Ltd	30-Jun-20	18.3	14.8	0.0
3	Vanika Comm & Hold L	30-Jun-20	10.7	8.7	0.0
4	Goel Anil Kumar	30-Jun-20	2.3	1.8	0.1
5	Investor Education &	30-Jun-20	1.6	1.3	0.0
6	Life Insurance Corp	30-Jun-20	1.5	1.2	0.0
7	Dalmia Jai Hari	30-Jun-20	0.7	0.6	0.0
8	Shri Brahma Creation	30-Jun-20	0.4	0.3	0.0
9	Dalmia Gautam	30-Jun-20	0.2	0.2	0.0
10	Government Of India	30-Jun-20	0.2	0.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	74.9	74.9	74.9	74.9	74.9
FII	3.0	2.0	0.8	0.4	0.4
DII	1.9	1.9	1.9	2.0	2.0
Others	20.2	21.2	22.4	22.7	22.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	2,018.5	2,034.7	2,519.3	2,406.9
Growth (%)	-10.1	0.8	23.8	-4.5
Raw Material Expenses	1,408.2	1,407.0	1,839.9	1,733.4
Employee Expenses	118.7	133.6	151.2	154.0
Administrative Expenses	31.1	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	194.8	233.6	262.0	240.7
Total Operating Expenditure	1,752.8	1,774.2	2,253.0	2,128.1
EBITDA	265.7	260.5	266.3	278.7
Growth (%)	13.5	-2.0	2.2	4.7
Depreciation	80.2	57.2	60.2	61.5
Interest	68.6	88.4	61.3	43.7
Other Income	74.7	132.6	126.0	113.4
PBT	116.9	114.9	144.8	173.5
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	16.4	54.3	0.0	0.0
PAT	175.2	193.2	216.7	229.5
Growth (%)	43.2	10.3	12.1	5.9
EPS (₹)	21.6	23.9	26.8	28.4

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	191.6	247.5	216.7	229.5
Add: Depreciation	80.2	57.2	60.2	61.5
Add: Interest	68.6	88.4	0.0	0.0
(Inc)/dec in Current Assets	-487.5	-226.7	23.4	-35.3
Inc/(dec) in Current Liabilities	2.8	1.1	-13.4	95.6
CF from operating activities	-220.4	72.4	286.9	351.4
(Inc)/dec in Investments	73.4	-96.8	-5.0	-5.0
(Inc)/dec in Fixed Assets	-107.0	-90.4	-55.0	-49.0
Others	4.4	7.9	0.6	0.0
CF from investing activities	-29.2	-179.3	-59.3	-54.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	271.5	232.7	-250.0	-270.0
Dividend paid & dividend tax	0.0	-35.1	-24.3	-24.3
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-52.8	-52.3	0.0	0.0
CF from financing activities	218.7	145.3	-274.3	-294.3
Net Cash flow	-31.0	38.4	-46.7	3.1
Opening Cash	59.0	28.0	66.5	19.7
Cash with bank	0.5	0.6	0.0	0.0
Closing Cash	28.6	67.1	19.7	22.8

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	16.2	16.2	16.2	16.2
Reserve and Surplus	1,515.5	1,502.6	1,695.0	1,900.2
Total Shareholders funds	1,531.7	1,518.8	1,711.1	1,916.4
Total Debt	977.8	1,192.6	942.6	672.6
Long Term Provisions	22.8	29.4	27.4	25.4
Other Non-current Liabilities	117.0	117.7	118.7	119.7
Total Liabilities	2,649.2	2,858.5	2,799.9	2,734.1
Assets				
Gross Block	2,143.7	2,243.7	2,293.7	2,343.7
Less: Acc Depreciation	828.1	885.3	945.5	1,007.0
Net Block	1,315.6	1,352.4	1,348.2	1,336.6
Capital WIP	10.9	6.2	5.2	4.2
Intangible assets	0.5	0.4	0.4	0.4
Non Current Investments	197.3	100.3	105.3	110.3
Other non-current assets	55.9	48.5	48.5	48.5
Current Assets				
Inventory	1,095.1	1,329.2	1,259.7	1,270.3
Debtors	203.6	169.8	195.9	200.6
Cash	28.6	67.1	19.7	22.8
Loans & Advances	1.1	0.8	0.8	0.8
Other Current Assets	280.6	363.5	383.5	403.5
Current Liabilities				
Creditors	420.2	402.0	422.9	429.7
Provisions	6.7	5.6	5.6	5.6
Other CL	113.1	172.1	138.8	228.5
Net Current Assets	1,068.9	1,350.8	1,292.4	1,234.2
Total Assets	2,649.2	2,858.5	2,799.9	2,734.1

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	21.6	23.9	26.8	28.4
Cash EPS	31.5	30.9	34.2	36.0
BV	189.2	187.6	211.4	236.8
DPS	0.0	3.6	3.0	3.0
Cash Per Share	102.3	109.4	116.8	124.4
Operating Ratios (%)				
EBITDA Margin	13.2	12.8	10.6	11.6
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	8.7	6.7	8.6	9.5
Inventory days	198.6	238.4	182.5	192.6
Debtor days	36.9	30.5	28.4	30.4
Creditor days	76.2	72.1	61.3	65.2
Return Ratios (%)				
RoE	11.4	9.0	12.7	12.0
RoCE	9.8	11.8	11.9	12.1
Valuation Ratios (x)				
P/E	5.7	5.2	4.6	4.4
EV / EBITDA	7.2	8.1	7.2	5.9
EV / Net Sales	1.0	1.0	0.8	0.7
Market Cap / Sales	0.5	0.5	0.4	0.4
Price to Book Value	0.7	0.7	0.6	0.5
Solvency Ratios				
Debt/EBITDA	3.7	4.6	3.5	2.4
Debt / Equity	0.6	0.8	0.6	0.4
Current Ratio	3.6	4.2	3.6	3.3
Quick Ratio	1.1	1.2	1.1	1.1

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)	FY20	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E
Balrampur Chini (BALCHI)	126	176	Buy	2,860	23.6	24.1	27.5	5.3	5.2	4.6	6.2	5.1	4.5	1.2	1.1	1.0	16.1	18.5	19.7
Dhampur Sugar (DHASUG)	128	160	Buy	851	32.5	35.9	40.1	3.9	3.6	3.2	6.7	5.0	4.0	0.6	0.5	0.5	10.4	13.3	14.5
Dwarikesh sugar (DVASUG)	24	38	Buy	471	3.9	7.0	7.1	6.2	3.5	3.4	8.1	4.3	4.1	1.0	0.8	0.7	9.0	16.8	15.9
Triveni Engineering (TRIENG)	54	82	Buy	1,351	13.5	15.4	16.4	4.0	3.5	3.3	4.9	4.4	4.1	1.0	0.8	0.7	17.6	18.1	17.7
Dalmia Bharat Sugar (DALSUG)	124	160	Buy	1,004	23.9	26.8	28.4	5.2	4.6	4.4	8.1	7.2	5.9	0.7	0.6	0.5	11.8	11.9	12.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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