

Distillery capacities to boost earnings growth...

About the stock: Dwarikesh Sugar (DSL) is a UP based sugar company with sugar crushing capacity of 21500 TCD, distillery capacity of 163 KLD & co-generation capacity of 91 MW. It is undertaking a distillery capacity addition of 170 KLD with investment of ₹ 230 crore. The distillery will be commissioned by June-2022.

- The company would be able to increase distillery volumes to 11 crore litre in FY24 from 3.2 crore litre in FY21

Q3FY22 Results: DSL reported strong revenue & profit growth in Q3FY22.

- Sales was up 57.8 % YoY, on high sugar & ethanol volumes & realisation
- EBITDA was at ₹ 55.1 crore, up 137.8% YoY, with margins at 9.2%
- Consequent PAT was at ₹ 28.9 crore (up ~4x YoY)

What should investors do? DSL's share price has gone up 105% in the last five years (from ₹ 46 in February 2017 to ₹ 92 in February 2022).

- We expect 3x increase in distillery volumes to boost earnings with CAGR of 40.4% during FY21-24E
- We continue to maintain our BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 135, valuing the business at 3x FY23 BV.

Key triggers for future price performance:

- Distillery revenue to grow at 61.7% CAGR in FY21-24E with 3x increase in ethanol volumes and 6.9% increase in distillery realisation led by better realisation from B-heavy & sugarcane juice ethanol
- Higher exports aided by rising global sugar prices, sugarcane diversion towards ethanol has led to 6 MT inventory reduction since 2019 (expected to further fall by 1-2 MT by September 2022), leading to firm sugar prices
- With increasing profitability & reduction in sugar inventory, the company would be able to generate cumulative ₹ 517 crore free cash flows in the next three years. It would completely de-leverage the balance sheet

Alternate Stock Idea: We like Balrampur Chini in our sugar coverage.

- The company is the second largest and one of the most efficient sugar companies in India. Along with sugarcane juice, B-heavy, it is also utilising grain based ethanol to leverage the ethanol opportunity in India
- We value the stock at ₹ 500/share with a BUY recommendation



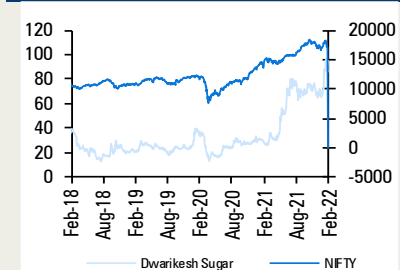
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,732.4
Total Debt (FY21)	556.8
Cash and Investments (FY21)	1.2
EV	2,288.0
52 week H/L (₹)	99.5 / 26.1
Equity capital	18.8
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	42.1	42.1	42.1	42.1
FII	0.4	2.2	2.8	4.1
DII	4.0	4.2	4.0	4.0
Others	53.5	51.5	51.1	49.8

Price Chart



Recent event & key risks

- It would commission new 170 KLD distillery by July 2022
- Key Risk:** (i) Fall in global sugar prices could impact sugar exports from India (ii) Any delay in distillery expansion

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Key Financial Summary

Key Financials	FY20	FY21	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	1336.2	1838.9	1985.1	1966.4	2135.3	5.1%
EBITDA	136.1	201.3	271.3	303.1	401.3	25.9%
EBITDA Margin %	10.2	10.9	13.7	15.4	18.8	
Net Profit	73.5	91.5	150.8	180.8	253.2	40.4%
EPS (₹)	3.9	4.9	8.0	9.6	13.4	40.4%
P/E	23.6	18.9	11.5	9.6	6.8	
RoNW %	15.2	15.8	21.3	21.2	24.2	
RoCE (%)	9.0	14.4	21.7	22.0	29.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY22 Results: Aggressively diverting sugarcane towards ethanol

- Consolidated revenue witnessed growth of 57.8% ₹ 601.3 crore led by 52.8% growth in sugar segment sales & 157% growth in distillery segment sales. Sugar segment sales growth was led by higher domestic sales quota and increase in sugar realisation
- Sugar volumes increased 36.6% to 1.4 lakh tonnes (lt), which includes 25,000 tonnes of exports & 1.15 lt of domestic sales. With the firm domestic sugar prices led by higher exports & increasing sugarcane diversion towards ethanol, sugar realisation increased by 11.5% to ₹ 35.4/litre
- Distillery volumes grew to 2x to 1.13 crore litre with the ramping up capacity utilisation. Further, distillery realisation increased 26% to ₹ 58.6/litre on account of increasing proportion of B-heavy ethanol. The company is entirely producing B-Heavy ethanol given higher prices (B-heavy prices prevailing at ₹ 59/litre compared to ₹ 46.6/litre for C-Heavy ethanol)
- Co-generation sales remain flat at ₹15.6 crore. Power sales were 4.9 crore units against 5.0 crore units whereas power tariff was ₹ 3.2/ unit vs. ₹ 3.1/unit
- Operating profit grew 137.8% to ₹ 55.1 crore on the back of increase in sugar volumes, sugar realisation & higher proportion of B-heavy ethanol. Despite, Q3 being lean on ethanol volumes (due to maintenance period), operating margins perked up by 308 bps to 9.2%
- With liquidation of excess inventories & reduction in working capital debt, interest cost has come down from ₹ 9.6 crore to ₹ 3.9 crore. PAT jumped up 4x to ₹ 28.9 crore led by higher operating profit & lower interest costs
- The company has changed the transfer pricing for B-heavy molasses from ₹ 6.5/ litre to ₹ 11.5 /litre. This resulted in booking inventory profits at front-end
- Sugar inventory has come down to 1.1 lt in Q3FY22 compared to 1.95 lt in the corresponding quarter. The current inventory is valued at ₹ 31.6/kg
- Landed cost of sugarcane for the company is ₹ 3.6/kg as more than 90% of sugarcane crushed in early variety sugarcane. The company is expected to crush 3.75 million tonnes of sugarcane in 2021-22 sugar season. The current gross recovery is 20 bps lower due to flooding in September-October 2021. However, with the start of the crushing of first plantation sugarcane, recoveries are expected to improve
- DSL is working on new sugarcane varieties like '15023' & '14021', which is expected to improve yield as well as recoveries. The process of changing the sugarcane in its catchment area would take five years to replace Co-0238 sugarcane variety
- The company would be commissioning 170 KLD distillery by June-2022. We believe DSL would be able to sell 8.3 crore litre of ethanol in FY23E & 11 crore litre by FY24E. Currently the company is storing B-heavy molasses in Dwarikesh Nagar Factory, which would be utilised for the production of B-heavy ethanol after the commissioning of new distillery. On an annualised basis, DSL would be diverting 25-30% sugarcane towards ethanol from FY24 onwards
- Total debt as on December 2021 is ₹ 190 crore, which includes ₹ 30 crore debt for new distillery. It will take further ₹ 150 crore debt for the new distillery in the next three months. However, working capital debt requirement for peak crushing would come down considerably

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	Rating	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)			
	(₹)	(₹)		(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Balrampur Chini (BALCHI)	425	500	Buy	8929	-3.2	12.6	30.0	25.7	14.8	16.1	19.3	20.2	18.6	16.5	12.7	10.1	3.6	3.3	2.9	2.6	16.4	18.2	20.5	23.3
Dalmia Bharat Sugar (DALSUG)	443	610	Buy	3587	39.9	18.2	11.8	18.5	17.6	19.1	19.6	19.3	13.3	11.2	10.0	8.5	1.7	1.7	1.5	1.3	13.3	14.2	15.3	16.3
Triveni Engineering (TRIENG)	265	270	Buy	6402	-9.9	45.0	21.9	17.8	11.9	12.8	14.5	15.1	21.7	15.0	12.3	10.4	4.0	3.4	2.8	2.4	19.4	19.2	22.4	23.7
Dwarikesh sugar (DWASUG)	92	135	Buy	1732	24.5	64.8	19.9	40.0	10.9	13.7	15.4	18.8	18.9	11.5	9.6	6.8	3.0	2.4	2.0	1.7	14.4	21.7	22.0	29.1
Avadh Sugar (AVASUG)	628	680	Buy	1255.8	-12.4	71.1	44.1	14.3	9.6	12.6	13.9	14.7	16.2	9.5	6.6	5.7	1.8	1.5	1.2	1.0	11.5	15.2	18.4	19.2
Dhampur Sugar (DHASUG)	379	430	Buy	2515.1	5.8	24.4	17.4	12.6	11.0	13.9	13.6	13.7	11.0	8.9	7.5	6.7	1.5	1.3	1.2	1.0	14.8	15.3	16.8	18.2

Source: Company, ICICI Direct Research

Dwarikesh Sugar is one of the most efficient sugar companies with abundant sugarcane availability, best sugar recoveries in UP and aggressive distillery expansion. The company is increasing its distillery capacity by 3x (from 3.2 crore litre in FY21 to 11 crore litre in FY24). The new distillery would be getting commissioned in July 2022. Further, with the continuous rationalisation of sugar inventories, domestic sugar prices are in the upward trajectory. We believe sugar prices would move up to ₹ 36-37/kg by April 2022. The increase in distillery volume and higher sugar prices would result in significant jump in operating margins & earning for the sugar companies. With aggressive distillery expansion, Dwarikesh Sugar would be one of the biggest beneficiary in the sugar industry. Given most sugar companies are still trading at single digit multiples on FY24 earnings, there is enough scope for multiple expansion. We remain positive on the sugar stocks, in general, and Dwarikesh Sugar, in particular. We maintain our BUY rating with a revised target price of ₹ 135/kg (earlier ₹ 110).

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Total Operating Income	601.3	381.2	57.8	505.5	19.0	Net sales witnessed growth of 57.8% led by 52.8% growth in sugar segment & 157% growth in distillery segment
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	478.4	309.2	54.7	373.9	27.9	
Employee Expense	30.7	25.0	22.9	20.3	51.1	
Other operating Expenses	37.2	23.9	55.9	36.6	1.8	
EBITDA	55.1	23.2	137.8	74.7	-26.3	Operating profit jumped 137.8% on the back of higher distillery volumes, change in proportion towards B-heavy ethanol & increase in sugar realisation
EBITDA Margin (%)	9.2	6.1	308 bps	14.8	-563 bps	
Depreciation	11.0	10.3	7.3	10.6	4.1	
Interest	3.9	9.6	-59.6	8.6	-54.7	Interest cost reduction on the back of significant debt reduction
Other Income	1.0	4.1	-76.0	0.6	52.8	
PBT	41.1	7.3	463.8	56.2	-26.8	
Tax Outgo	12.2	-0.2	NC	16.6	NC	
PAT	28.9	7.5	285.6	39.6	-27.1	Net profit grew to 4x with strong growth in operating profit & reduction in interest costs
Key Metrics						
Sugar sales volume (in tonnes)	141,740	103,790	36.6	120,650	17.5	Sugar volume increased by 36.6% on the back of higher domestic sugar quota & 25,000 tonnes of exports in Q3
Domestic Sugar realisation (₹ per kg)	35.4	31.8	11.5	33.8	4.8	With the reduction in inventory, sugar prices increased by 11.5%
Distillery volumes (in crore litre)	1.1	0.6	101.8	1.7	-33.5	Distillery volumes increased with ramping up of distillery utilisation
Distillery realisation (₹ per litre)	58.6	46.5	26.0	57.6	1.7	Sharp jump in ethanol realisation due to change in product mix in favour of B-heavy ethanol

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	2024.8	1,985.1	-2.0	2,010.6	1,966.4	-2.2	2,048.9	2,135.3	4.2	We reduce our sugar volumes estimates for FY22E & FY23E with higher diversion towards ethanol
EBITDA	250.1	271.3	8.5	296.3	303.1	2.3	393.1	401.3	2.1	Operating profit estimates to improve significantly due to significant reduction in inventory & change in transfer pricing of B-heavy molasses, resulting in front ended profit booking
EBITDA Margin (%)	12.4	13.7	131 bps	14.7	15.4	68 bps	19.2	18.8	-39 bps	
PAT	144.0	150.8	4.7	165.0	180.8	9.6	248.7	253.2	1.8	We revise upwards our tax estimates
EPS (₹)	7.6	8.0	5.4	8.8	9.6	9.1	13.2	13.4	1.9	

Source: ICICI Direct Research

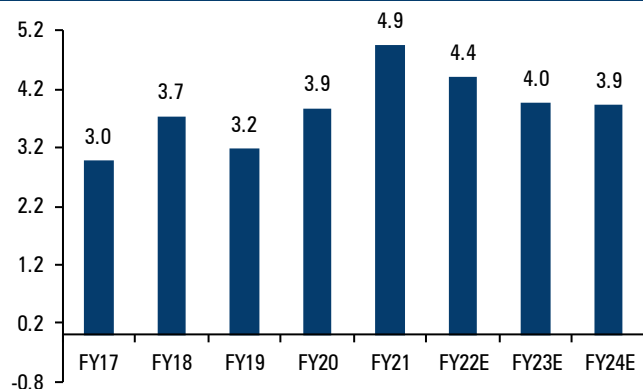
Exhibit 4: Assumptions

	Current						Earlier			Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Sugar Sold (in tonne)	317,700	387,848	494,890	440,452	396,407	392,443	470,146	423,131	380,818	We change our sugar volume estimates given the company is aggressively diverting sugarcane towards ethanol
Sugar Price (₹ per tonne)	29,628	31,301	32,099	34,500	35,000	35,500	34,500	35,000	35,500	
Distillery volume	9,017	11,600	31,700	53,625	83,125	109,725	53,625	74,813	109,725	We change our distillery volume estimates upwards for FY23E
Distillery price (₹ per KL)	40,278	48,276	50,223	57,255	60,117	61,320	57,255	57,255	57,255	Distillery realisation to improve due to increase in ethanol prices & expected production of sugarcane juice ethanol
Power Units sold	20.2	16.3	17.1	17.5	18.0	18.0	17.5	18.0	18.5	
Price per unit (₹ per units)	5.0	2.9	3.1	3.2	3.3	3.3	3.2	3.4	3.5	

Source: ICICI Direct Research

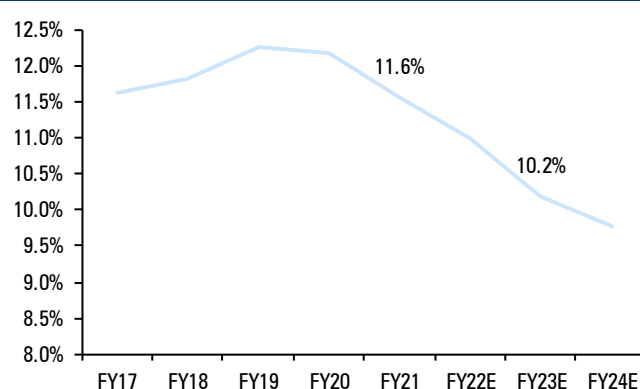
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



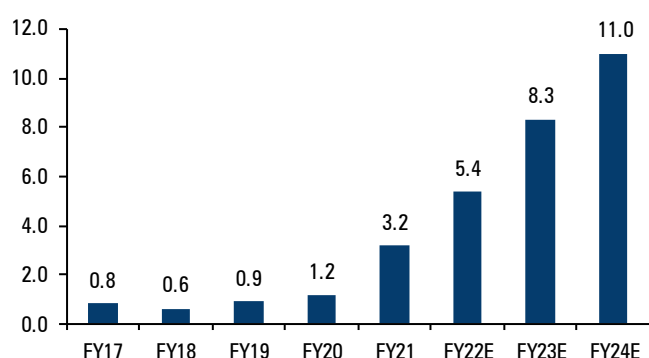
Source: ICICI Direct Research, Company

Exhibit 6: Sugar recovery rate (%)



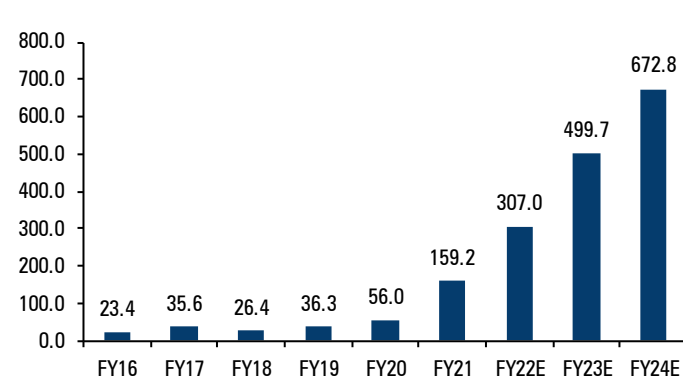
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



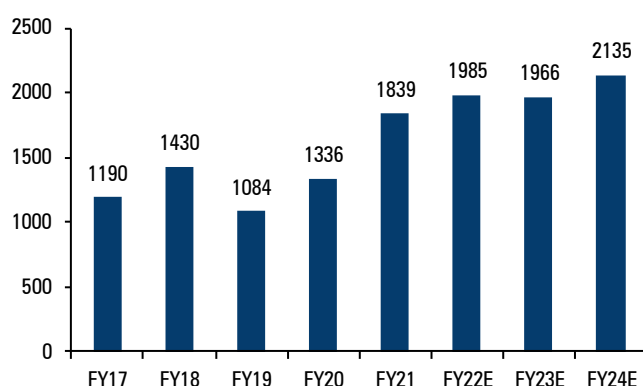
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



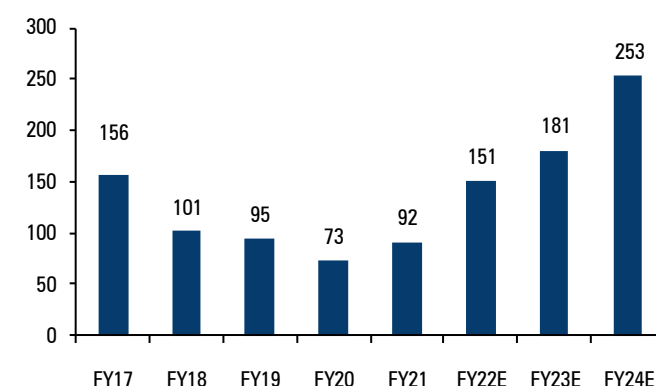
Source: Company, ICICI Direct Research

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 (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	1838.9	37.6	4.9	24.5	18.9	11.4	15.8	14.4
FY22E	1985.1	8.0	8.0	64.8	11.5	7.5	21.3	21.7
FY23E	1966.4	-0.9	9.6	19.9	9.6	6.6	21.2	22.0
FY24E	2135.3	8.6	13.4	40.0	6.8	8.0	24.2	29.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Income	1,838.9	1,985.1	1,966.4	2,135.3
Growth (%)	37.6	8.0	-0.9	8.6
Raw Material Expenses	1,431.1	1,488.3	1,427.3	1,477.8
Employee Expenses	92.7	104.5	110.1	121.7
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	113.8	121.0	125.9	134.5
Total Operating Expenditure	1,637.6	1,713.8	1,663.3	1,734.0
EBITDA	201.3	271.3	303.1	401.3
Growth (%)	47.9	34.8	11.7	32.4
Depreciation	40.9	43.5	51.2	59.9
Interest	47.7	30.3	14.8	8.2
Other Income	7.1	4.1	4.6	5.2
PBT	112.7	197.5	237.1	333.3
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	28.3	50.8	60.9	85.3
PAT	91.5	150.8	180.8	253.2
Growth (%)	24.5	64.8	19.9	40.0
EPS (₹)	4.9	8.0	9.6	13.4

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	119.8	150.8	180.8	253.2
Add: Depreciation	40.9	43.5	51.2	59.9
Add: Interest	47.7	0.0	0.0	0.0
(Inc)/dec in Current Assets	108.1	147.7	41.7	-79.6
Inc/(dec) in Current Liabilities	-15.0	2.4	-18.6	23.2
CF from operating activities	295.6	344.5	255.1	256.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-19.5	-80.0	-180.0	-30.0
Others	1.9	1.0	0.0	0.0
CF from investing activities	-17.6	-79.0	-180.0	-30.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-236.1	-220.0	-40.0	-170.0
Dividend paid & dividend tax	-43.4	-23.5	-37.7	-56.5
Inc/(dec) in Sec. premium	-0.3	1.5	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-279.8	-242.1	-77.7	-226.5
Net Cash flow	-1.8	23.4	-2.5	0.1
Opening Cash	1.9	0.1	23.6	21.1
Cash with bank	1.0	0.0	0.0	0.0
Closing Cash	1.2	23.6	21.1	21.2

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet ₹ crore				
	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	18.8	18.8	18.8	18.8
Reserve and Surplus	560.1	688.8	832.0	1,028.6
Total Shareholders funds	578.9	707.7	850.8	1,047.5
Total Debt	556.8	336.8	296.8	126.8
Long Term Provisions	21.8	19.8	17.8	15.8
Other Non-current Liabilities	2.2	2.2	2.2	2.2
Total Liabilities	1,159.7	1,066.5	1,167.6	1,192.3
Assets				
Gross Block	931.5	1,011.5	1,191.5	1,221.5
Less: Acc Depreciation	521.5	565.0	616.2	676.1
Net Block	409.9	446.4	575.2	545.4
Capital WIP	0.5	0.5	0.5	0.5
Intangible assets	0.0	0.0	0.0	0.0
Non Current Investments	0.1	0.1	0.1	0.1
Other non-current assets	53.2	53.2	53.2	53.2
Current Assets				
Inventory	855.3	689.3	628.2	682.1
Debtors	67.9	66.2	65.5	71.2
Cash	1.2	23.6	21.1	21.2
Loans & Advances	0.1	0.1	0.1	0.1
Other Current Assets	57.2	77.2	97.2	117.2
Current Liabilities				
Creditors	187.2	191.6	175.0	200.2
Provisions	3.8	3.8	3.8	3.8
Other CL	94.7	94.7	94.7	94.7
Net Current Assets	696.0	566.2	538.6	593.1
Total Assets	1,159.7	1,066.5	1,167.6	1,192.3

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	4.9	8.0	9.6	13.4
Cash EPS	7.0	10.3	12.3	16.6
BV	30.7	37.6	45.2	55.6
DPS	0.0	1.3	2.0	3.0
Cash Per Share	27.7	30.0	32.7	35.9
Operating Ratios (%)				
EBITDA Margin	10.9	13.7	15.4	18.8
PBT / Net Sales	6.5	10.2	12.3	15.9
PAT Margin	5.0	7.6	9.2	11.9
Inventory days	169.8	126.7	116.6	116.6
Debtor days	13.5	12.2	12.2	12.2
Creditor days	37.2	35.2	32.5	34.2
Return Ratios (%)				
RoE	15.8	21.3	21.2	24.2
RoCE	14.4	21.7	22.0	29.1
Valuation Ratios (x)				
P/E	18.9	11.5	9.6	6.8
EV / EBITDA	11.4	7.5	6.6	4.6
EV / Net Sales	1.2	1.0	1.0	0.9
Market Cap / Sales	0.9	0.9	0.9	0.8
Price to Book Value	3.0	2.4	2.0	1.7
Solvency Ratios				
Debt/EBITDA	2.8	1.2	1.0	0.3
Debt / Equity	1.0	0.5	0.3	0.1
Current Ratio	4.9	4.0	4.2	4.1
Quick Ratio	0.6	0.7	0.9	0.9

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)	425	500	Buy	8,929	22.8	25.7	33.4	42.0	18.6	16.5	12.7	10.1	14.7	13.4	10.8	8.6	3.6	3.3	2.9	2.6	16.4	18.2	20.5	23.3
Dalmia Bharat Sugar (DALSUG)	443	610	Buy	3,587	33.4	39.5	44.1	52.3	13.3	11.2	10.0	8.5	9.4	8.6	7.1	6.3	1.7	1.7	1.5	1.3	13.3	14.2	15.3	16.3
Triveni Engineering (TRIENG)	265	270	Buy	6,402	12.2	17.7	21.5	25.4	21.7	15.0	12.3	10.4	12.5	11.3	9.1	7.9	4.0	3.4	2.8	2.4	19.4	19.2	22.4	23.7
Dwarikesh sugar (DWASUG)	92	135	Buy	1,732	4.9	8.0	9.6	13.4	18.9	11.5	9.6	6.8	11.4	7.5	6.6	4.7	3.0	2.4	2.0	1.7	14.4	21.7	22.0	29.1
Dhampur Sugar (DHASUG)	379	430	Buy	2,515	34.4	42.7	50.2	56.5	11.0	8.9	7.5	6.7	7.2	6.6	5.5	4.7	1.5	1.3	1.2	1.0	14.8	15.3	16.8	18.2
Avadh Sugar (AVASUG)	628	680	Buy	1,256	38.8	66.4	95.7	109.3	16.2	9.5	6.6	5.7	9.2	6.6	5.1	4.3	1.8	1.5	1.2	1.0	11.5	15.2	18.4	19.2

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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