

## Distillery volumes to grow 3x by 2024...

**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. DSL is undertaking a distillery capacity addition of 175 KLD with investment of ₹ 230 crore. The distillery will be commissioned by October 2022.

- The company would be able to increase distillery volumes to 10 crore litre in FY24 from 3.2 crore litre in FY21

**Q1FY22 Results:** DSL reported strong profit growth in Q1FY22.

- Sales were down 10.9 % YoY, due to lack of exports during the quarter
- EBITDA was at ₹ 58.5 crore, up 16.7% YoY, with margins at 14.9%
- Consequent PAT was at ₹ 27.1 crore (up 49.7 % YoY)

**What should investors do?** DSL's share price has gone up 140% in the last five years (from ₹ 32 in July 2016 to ₹ 77 in July 2021).

- We expect 3x increase in distillery volumes to boost earnings with a CAGR of 38.9% during FY21-24E
- We continue to maintain our BUY rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 110, valuing the business at 2.5x FY23 BV

**Key triggers for future price performance:**

- Distillery revenue to grow at 53.1% CAGR in FY21-24E with 3x increase in ethanol volumes & 14% increase in distillery realisation led by better realisation from B-heavy & sugarcane juice ethanol
- Higher exports aided by rising global sugar prices & industry wide sugarcane diversion towards ethanol would lead to lower sugar inventory in the country & higher domestic sugar prices
- With increasing profitability & reduction in sugar inventory, the company would be able to generate cumulative ₹ 450 crore free cash flows in the next three years. It would de-leverage the balance sheet

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

- The company is the second largest & one of the most efficient sugar companies in India. Along with sugarcane juice, B-heavy, the company is also utilising grain based ethanol to leverage the ethanol opportunity in India
- We value the stock at ₹ 515 / share with a BUY recommendation



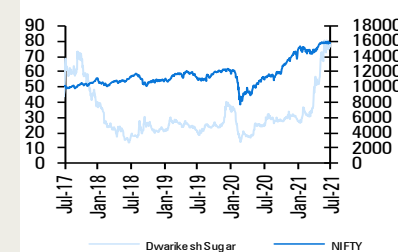
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	1,449.9
Total Debt (FY21)	556.8
Cash and Investments (FY21)	1.2
EV	2,005.5
52 week H/L (₹)	83.9 / 23
Equity capital	18.8
Face value (₹)	1.0

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	42.1	42.1	42.1	42.1
FII	0.1	0.1	0.4	2.2
DII	3.5	3.5	4.0	4.2
Others	54.3	54.3	53.5	51.5

### Price Chart



### Recent event & key risks

- The company announced capex of 175 KLD to get commissioned by October 2022
- Key Risk:** (i) Any delay in distillery capex could impact earnings adversely (ii) Significant increase in sugarcane prices may impact earnings

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	1336.2	1838.9	18.3	1917.5	1905.8	1948.2	1.9%
EBITDA	136.1	201.3	13.2	236.0	293.8	393.3	25.0%
EBITDA Margin %	10.2	10.9		12.3	15.4	20.2	
Net Profit	73.5	91.5	18.6	132.6	159.4	245.5	38.9%
EPS (₹)	3.9	4.9	15.3	7.0	8.5	13.0	38.9%
P/E	19.7	15.8		10.9	9.1	5.9	
RoNW %	15.2	15.8		19.2	19.7	24.3	
RoCE (%)	9.0	14.4		18.7	19.6	27.2	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q1FY22 Results: Strong growth in distillery segment

- Revenue saw de-growth of 10.9% during the quarter mainly on account of lack of exports. The company received additional export quota in base quarter due to the re-allocation. In the last sugar season, DSL exported 1.2 lakh tonnes (lt) of sugar whereas in the current sugar season (2020-21), it has exported 0.8 lt, which was exhausted in the last quarter
- Sugar segment sales declined 22% due to lower exports. Domestic sugar sales quota was 96,380 tonnes in Q1. Distillery sales grew to 3x to 1.1 crore litre with the scale up capacity utilisation, higher proportion of B-heavy ethanol. The base quarter also saw lower offtake by OMCs due to lockdown (lack of storage capacities of OMCs during lockdown)
- Operating profit increased 16.7% to ₹ 58.5 crore with a substantial increase in distillery volumes & higher proportion of B-heavy ethanol volumes. The company is going to sell only B-heavy ethanol given better realisation for the same
- Interest cost reduced 9% mainly on account of considerable debt reduction over the last one year. PAT grew 49.7% to ₹ 27.1 crore led by higher operating profit, lower interest cost & lower tax provisioning
- The company has announced a capex of ₹ 232 crore for 175 KLD distillery expansion, which would be commissioned by November 2022. The capex would be funded by debt (available at 50% interest subventions) & internal accruals. The company would be able to clock distillery volumes of 7 crore litre by FY23E & 10 crore litre by FY24E
- In the current season, the company has diverted equivalent sugarcane of 36,000 tonnes sugar towards ethanol production. After the 175 KLD sugar capacity expansion, the company would be able to utilise sugarcane & B-heavy route to produce ethanol. The company would be diverting 30% of its sugarcane towards ethanol production
- DSL is holding 2.54 lt of sugar valued at ₹ 29.2/kg, which should be exhausted by December 2021. The company expects a 5% increase in sugarcane availability for the 2021-22 sugar season and better recovery given 2020-21 sugar season ended early
- Current sugar prices have moved from ₹ 32/kg to ₹ 33/kg in the last few days after the announcement of domestic August quota & expected festive season demand

### Exhibit 1: Peer Comparison

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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
Balrampur Chini (BALCHI)	381	515	Buy	8006	-3.2	18.5	35.6	15.3	14.8	17.1	17.8	18.6	14.8	12.5	9.2	8.0	2.7	2.4	2.1	1.9	16.4	18.1	23.1	23.8
Dalmia Bharat Sugar (DALSUG)	480	650	Buy	3882	39.9	15.4	20.6	10.8	17.5	20.4	20.6	21.0	13.5	11.7	9.7	8.8	1.7	1.8	1.5	1.3	14.5	16.3	17.2	18.9
Triveni Engineering (TRIENG)	187	270	Buy	4518	-9.9	36.7	24.5	19.5	11.9	13.1	14.9	16.5	16.0	11.7	9.4	7.9	3.0	2.6	2.2	1.9	19.4	19.8	22.8	25.3
Dwarikesh sugar (DWSUG)	77	110	Buy	1449	24.5	44.9	20.2	53.9	10.9	12.3	15.4	20.2	15.8	10.9	9.1	5.9	2.5	2.1	1.8	1.4	14.4	18.7	19.6	27.2

Source: Company, ICICI Direct Research

With the announcement of distillery capex, the company would scale up its distillery volumes from 3.2 crore litre in FY21 to 10 crore litre in FY24E. Most other sugar companies would witness 2x jump in distillery volumes in the next three years. We believe DSL would be able to divert 10% of its sugarcane towards juice ethanol & rest towards B-heavy ethanol. This would significantly improve the distillery realisation. With the surge in global prices, sugar industry would be able to export 6 million tonnes (MT) in the 2021-22 season. With the aggressive exports & significant sugarcane diversion towards ethanol, the industry would be able to reduce the sugar inventory below 7 million tonnes by September 2022. We believe with the expected 3x jump in distillery volumes, highest recovery rate in the industry & abundance sugarcane availability in the company's catchment area, DSL is likely to witness the highest jump in profitability in the next three years among our coverage universe companies. We maintain BUY rating on the stock with a target price of ₹ 110/share.

**Exhibit 2: Variance Analysis**

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	392.2	440.3	-10.9	600.0	-34.6	Revenue declined by 10.9% on account of lack of exports during the quarter. The company sold 0.96 lt of sugar during the quarter
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	294.7	345.7	-14.7	451.5	-34.7	
Employee Expense	20.7	20.1	3.0	29.8	-30.5	
Other operating Expenses	18.2	24.4	-25.4	36.3	-49.7	
EBITDA	58.5	50.2	16.7	82.4	-29.0	Operating profit increased 16.7% mainly on account of higher distillery volumes & higher proportion of B-heavy ethanol
EBITDA Margin (%)	14.9	11.4	353 bps	13.7	119 bps	
Depreciation	10.2	10.1	1.8	10.4	-1.2	
Interest	13.7	15.1	-8.9	10.1	35.5	
Other Income	1.0	0.5	122.1	1.3	-22.8	
PBT	35.6	25.5	39.7	63.3	-43.7	
Tax Outgo	8.5	7.4	NC	15.0	NC	
PAT	27.1	18.1	49.7	48.2	-43.8	Net profit increased 49.7% to ₹ 27.1 crore
<b>Key Metrics</b>						
Sugar sales volume (in tonnes)	96,380	125,560	-23.2	152,310	-36.7	Sugar volume declined given the base quarter includes export quantities
Domestic Sugar realisation (₹ per kg)	32.1	31.3	2.6	31.2	2.9	
Distillery volumes (in crore litre)	1.1	0.4	154.5	1.3	-13.8	Significant jump in distillery volumes on account of ramping up capacity utilisation
Distillery realisation (₹ per litre)	57.6	46.2	24.7	57.6	0.0	Higher realisation on the back of higher proportion of B-heavy ethanol

Source: Company, ICICI Direct Research

**Exhibit 3: Change in estimates**

	FY22E			FY23E			FY24E			Comments
(₹ Crore)	Old	New	% change	Old	New	% change	Old	New	% change	
Net sales	1821.5	1,917.5	5.3	1,861.2	1,905.8	2.4	1,896.8	1,948.2	2.7	We are changing our revenue numbers on the back of expected higher exports in sugar season 2021-22 & higher ethanol in FY23E & FY24E
EBITDA	235.7	236.0	0.1	263.8	293.8	11.3	352.6	393.3	11.5	We increase our estimation of distillery volumes for FY23E & FY24E
EBITDA Margin (%)	12.9	12.3	-63 bps	14.2	15.4	124 bps	18.6	20.2	160 bps	
PAT	132.8	132.6	-0.1	152.2	159.4	4.8	223.0	245.5	10.1	
EPS (₹)	7.1	7.0	-0.1	8.1	8.5	4.8	11.8	13.0	10.1	

Source: ICICI Direct Research

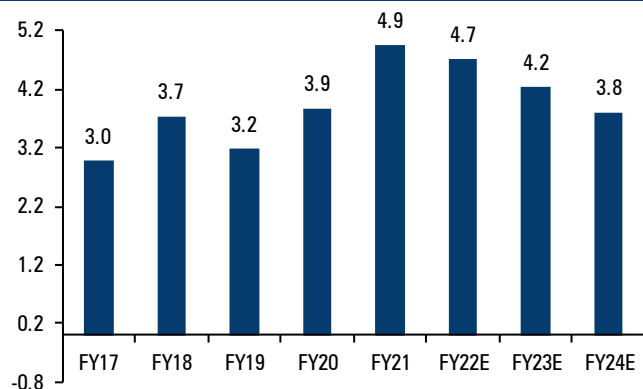
**Exhibit 4: Assumptions**

	Current						Earlier			Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Sugar Sold (in tonne)	317,700	387,848	494,890	470,146	423,131	380,818	440,452	422,834	380,551	Expecting higher exports volumes in FY22
Sugar Price (₹ per tonne)	29,628	31,301	32,099	33,000	34,000	34,500	33,600	34,500	35,000	Sugar prices have remained subdued in the first four months of FY22
Distillery volume	9,017	11,600	31,700	50,375	69,825	99,750	49,335	59,800	90,000	We change our distillery volumes estimates after the announcement of new capex
Distillery price (₹ per KL)	40,278	48,276	50,223	57,255	57,255	57,255	55,220	55,220	55,220	The company would only be selling B-heavy & Sugarcane Juice ethanol
Power Units sold	20.2	16.3	17.1	17.5	18.0	18.5	17.5	18.0	18.5	
Price per unit (₹ per units)	5.0	2.9	3.1	3.3	3.4	3.5	3.3	3.4	3.5	

Source: ICICI Direct Research

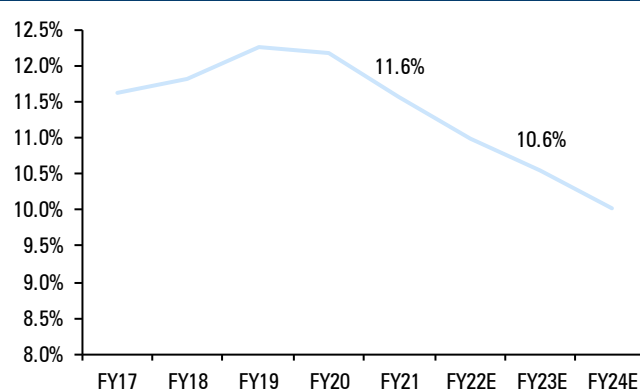
## Key Metrics

**Exhibit 5: Sugar sales volume (in lakh tonne)**



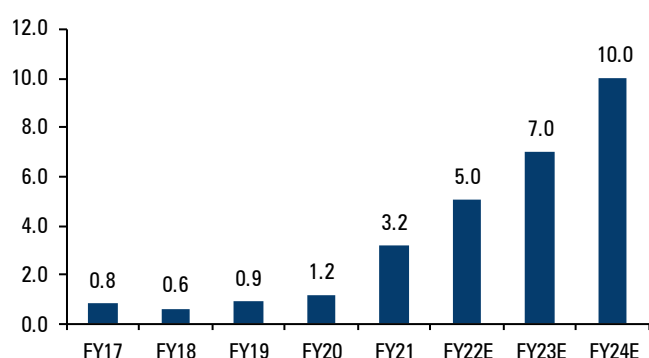
Source: ICICI Direct Research, Company

**Exhibit 6: Sugar recovery rate (%)**



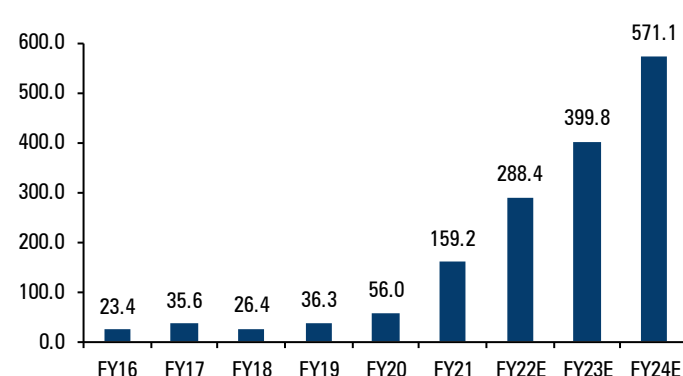
Source: ICICI Direct Research, Company

**Exhibit 7: Ethanol volumes (in crore litre)**



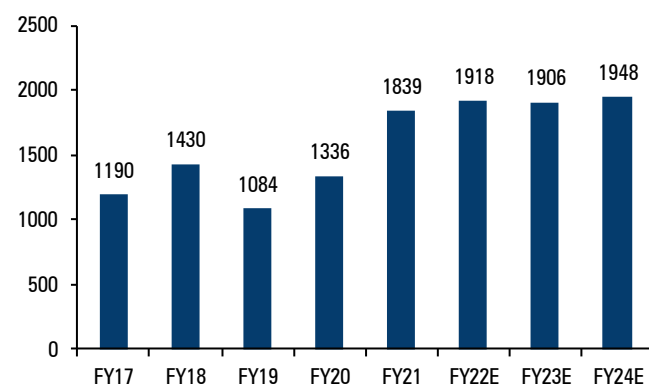
Source: Company, ICICI Direct Research

**Exhibit 8: Ethanol sales (₹ crore)**



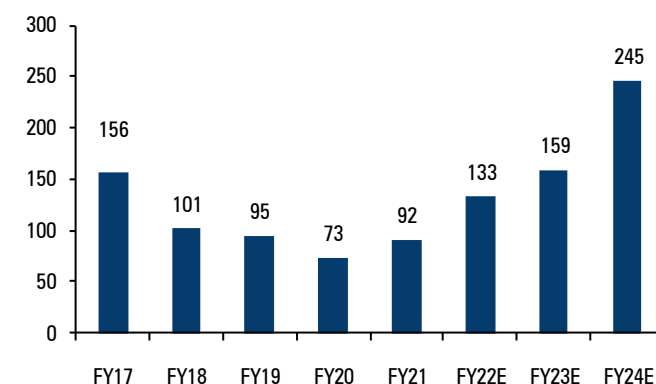
Source: Company, ICICI Direct Research

**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	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY21	1838.9	37.6	4.9	24.5	15.8	9.9	15.8	14.4
FY22E	1917.5	4.3	7.0	44.9	10.9	7.6	19.2	18.7
FY23E	1905.8	-0.6	8.5	20.2	9.1	6.2	19.7	19.6
FY24E	1948.2	2.2	13.0	53.9	5.9	7.9	24.3	27.2

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>1,838.9</b>	<b>1,917.5</b>	<b>1,905.8</b>	<b>1,948.2</b>
Growth (%)	37.6	4.3	-0.6	2.2
Raw Material Expenses	1,431.1	1,478.2	1,394.8	1,327.0
Employee Expenses	92.7	103.5	112.4	120.8
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	113.8	99.7	104.8	107.2
Total Operating Expenditure	1,637.6	1,681.5	1,612.1	1,554.9
<b>EBITDA</b>	<b>201.3</b>	<b>236.0</b>	<b>293.8</b>	<b>393.3</b>
Growth (%)	47.9	17.3	24.5	33.9
Depreciation	40.9	40.5	62.0	59.9
Interest	47.7	30.1	27.8	15.5
Other Income	7.1	8.1	9.1	10.2
PBT	112.7	165.4	204.0	317.9
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	28.3	40.9	53.7	82.7
<b>PAT</b>	<b>91.5</b>	<b>132.6</b>	<b>159.4</b>	<b>245.5</b>
Growth (%)	24.5	44.9	20.2	53.9
EPS (₹)	4.9	7.0	8.5	13.0

Source: Company, ICICI Direct Research

**Exhibit 13: Cash flow statement** ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	119.8	132.6	159.4	245.5
Add: Depreciation	40.9	40.5	62.0	59.9
Add: Interest	47.7	0.0	0.0	0.0
(Inc)/dec in Current Assets	108.1	146.8	-15.4	-63.8
Inc/(dec) in Current Liabilities	-15.0	-12.9	-14.9	2.9
<b>CF from operating activities</b>	<b>295.6</b>	<b>307.0</b>	<b>191.1</b>	<b>244.4</b>
(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
<b>CF from investing activities</b>	<b>-17.6</b>	<b>-79.0</b>	<b>-180.0</b>	<b>-30.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-236.1	-180.0	20.0	-160.0
Dividend paid & dividend tax	-43.4	-23.5	-37.7	-47.1
Inc/(dec) in Sec. premium	-0.3	1.5	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-279.8</b>	<b>-202.1</b>	<b>-17.7</b>	<b>-207.1</b>
Net Cash flow	-1.8	25.9	-6.5	7.4
Opening Cash	1.9	0.1	26.1	19.6
Cash with bank	1.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>1.2</b>	<b>26.1</b>	<b>19.6</b>	<b>26.9</b>

Source: Company, ICICI Direct Research

**Exhibit 14: Balance Sheet** ₹ crore

	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	18.8	18.8	18.8	18.8
Reserve and Surplus	560.1	670.6	792.4	990.8
Total Shareholders funds	578.9	689.5	811.2	1,009.6
Total Debt	556.8	376.8	396.8	236.8
Long Term Provisions	21.8	19.8	17.8	15.8
Other Non-current Liabilities	2.2	2.2	2.2	2.2
<b>Total Liabilities</b>	<b>1,159.7</b>	<b>1,088.3</b>	<b>1,228.1</b>	<b>1,264.5</b>
<b>Assets</b>				
Gross Block	931.5	1,011.5	1,191.5	1,221.5
Less: Acc Depreciation	521.5	562.0	623.9	683.8
Net Block	409.9	449.5	567.5	537.7
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
<b>Current Assets</b>				
Inventory	855.3	692.4	688.2	730.6
Debtors	67.9	63.9	63.5	64.9
Cash	1.2	26.1	19.6	26.9
Loans & Advances	0.1	0.1	0.1	0.1
Other Current Assets	57.2	77.2	97.2	117.2
<b>Current Liabilities</b>				
Creditors	187.2	176.3	163.4	168.3
Provisions	3.8	3.8	3.8	3.8
Other CL	94.7	94.7	94.7	94.7
Net Current Assets	696.0	585.0	606.7	673.0
<b>Total Assets</b>	<b>1,159.7</b>	<b>1,088.3</b>	<b>1,228.1</b>	<b>1,264.5</b>

Source: Company, ICICI Direct Research

**Exhibit 15: Key ratios**

	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	4.9	7.0	8.5	13.0
Cash EPS	7.0	9.2	11.8	16.2
BV	30.7	36.6	43.1	53.6
DPS	0.0	1.3	2.0	2.5
Cash Per Share	27.7	29.8	33.1	36.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	10.9	12.3	15.4	20.2
PBT / Net Sales	6.5	9.1	11.2	16.8
PAT Margin	5.0	6.9	8.4	12.6
Inventory days	169.8	131.8	131.8	136.9
Debtor days	13.5	12.2	12.2	12.2
Creditor days	37.2	33.6	31.3	31.5
<b>Return Ratios (%)</b>				
RoE	15.8	19.2	19.7	24.3
RoCE	14.4	18.7	19.6	27.2
<b>Valuation Ratios (x)</b>				
P/E	15.8	10.9	9.1	5.9
EV / EBITDA	9.9	7.6	6.2	4.2
EV / Net Sales	1.1	0.9	1.0	0.9
Market Cap / Sales	0.8	0.8	0.8	0.7
Price to Book Value	2.5	2.1	1.8	1.4
<b>Solvency Ratios</b>				
Debt/EBITDA	2.8	1.6	1.4	0.6
Debt / Equity	1.0	0.5	0.5	0.2
Current Ratio	4.9	4.4	4.8	5.0
Quick Ratio	0.6	0.7	0.9	1.0

Source: Company, ICICI Direct Research

**Exhibit 16: ICICI Direct coverage universe (Sugar)**

Sector / Company	CMP	TP	M Cap	Rating	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)			
	(₹)	(₹)			FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Balrampur Chini (BALCHI)	381	515	Buy	8,006	22.8	27.1	36.7	42.3	16.7	14.1	10.4	9.0	11.5	10.0	7.5	6.6	2.7	2.4	2.1	1.9	16.4	18.1	23.1	23.8
Dalmia Bharat Sugar (DALSUG)	480	650	Buy	3,882	33.4	38.5	46.5	51.5	14.4	12.5	10.3	9.3	9.5	8.3	7.0	6.2	1.7	1.8	1.5	1.3	13.3	14.5	16.3	17.2
Triveni Engineering (TRIENG)	187	270	Buy	4,518	12.2	16.7	20.7	24.8	15.3	11.2	9.0	7.5	9.9	9.0	7.3	6.1	3.0	2.6	2.2	1.9	19.4	19.8	22.8	25.3
Dwarikesh sugar (DWASUG)	77	110	Buy	1,449	4.9	7.0	8.5	13.0	15.8	10.9	9.1	5.9	9.9	7.6	6.2	4.2	2.5	2.1	1.8	1.4	14.4	18.7	19.6	27.2
Dhampur Sugar (DHASUG)	356	500	Buy	2,363	34.4	44.9	53.1	57.6	10.4	7.9	6.7	6.2	7.4	6.2	5.1	4.7	1.6	1.4	1.2	1.0	14.8	16.8	19.1	18.9
Avadh Sugar (AVASUG)	496	685	Buy	992	38.8	66.5	94.9	106.7	12.8	7.5	5.2	4.6	8.3	6.1	4.0	3.0	1.4	1.2	1.0	0.8	11.5	14.7	20.6	23.3

Source: Bloomberg, 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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