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SYSTEMATIX INSTITUTIONAL EQUITIES

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Institutional Equities

Dwarikesh Sugar

01 May 2024

RESULT UPDATE

Sector: Sugar Rating: BUY
CMP: Rs 73 Target Price: Rs 96

Stock Info

Sensex/Nifty	74,483 /22,605
Bloomberg	DSIL IN
Equity shares (mn)	188
52-wk High/Low	Rs 109.8/67.7
Face value	Rs 1
M-Cap	Rs 14bn/ USD 0.2bn
3-m Avg daily volume	USD 1.9mn

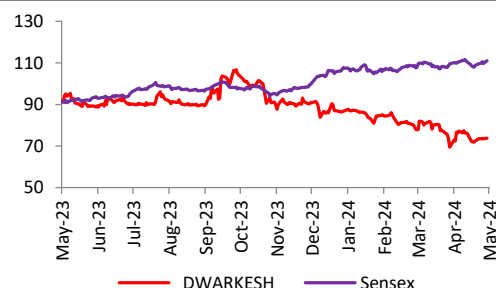
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	17,096	20,063	21,218
EBITDA	2,050	2,720	2,925
OPM (%)	12.0	13.6	13.8
PAT	836	1,514	1,655
EPS adj. (Rs)	4.4	8.0	8.8
PE (x)	16.4	9.1	8.3
EV/EBITDA (x)	8.8	6.2	5.5
P/B (x)	1.7	1.5	1.3
RoE (%)	10.7	17.3	16.7
RoCE (%)	12.6	16.8	18.0
D/E (x)	0.6	0.4	0.3
Dividend yield (%)	2.7	2.7	2.7
Dividend payout (%)	45	25	23

Shareholding Pattern (%)

	Mar'24	Dec'23	Sep'23
Promoter	42.1	42.1	42.1
- Pledged	-	-	-
FII	4.4	4.0	5.3
DII	0.3	0.1	0.2
Others	53.3	53.8	52.4

Stock Performance (1-year)



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Sugar beat estimates; weak distillery drags overall profitability

Dwarikesh Sugar Industries' (DSIL IN) 4QFY24 revenue fell 29% YoY to Rs 3.8bn (in line with our estimates) due to 35%/28% YoY lower sales volumes in sugar/ethanol, respectively. Sugar segment revenue fell 30% YoY to Rs 3.7bn but was 17% above our estimate, and distillery revenues declined 34% YoY to Rs 1.3bn (9% below our estimate). Despite an increase in the Uttar Pradesh-State Advised Price (UP-SAP) of cane by Rs 20/quintal, gross margins expanded 615bps YoY to 33.5% (below our estimate of 34.4%) as raw material costs decreased 35% YoY due to 18% lower cane crush. EBITDA dropped 15% YoY to Rs 732mn (17% above our estimate) as 46% YoY drop in distillery profit was partly offset by 4% YoY growth in sugar segment profitability. EBITDA margin expanded 303bps YoY to 19.3% (estimate of 17.3%). Finance costs rose 16% YoY to Rs 69mn with depreciation flat YoY at Rs 126mn. Other income surged 12% YoY to Rs 21mn. PAT fell 51% YoY to Rs 229mn (27% less than estimated) on higher tax. We have cut FY25E/FY26E EBITDA by 16%/12%, respectively, to factor in the lower profitability in ethanol, given the higher levy obligation for country liquor. We have also cut EPS by 22%/18% for this period. Our SOTP-based target price (TP) of Rs 96 (Rs 110 earlier) implies 11x FY26E P/E and 8x FY26E EV/EBITDA. We have assigned FY26E EV/EBIT of 10x to distillery and 7x to sugar; reiterating BUY on DSIL. Key risks: Lower-than-expected a) recovery rate, and b) domestic sugar prices.

Sugar division (66% of 4Q revenue) – Higher sugar realizations support profitability: 4QFY24 sugar revenue fell 30% YoY to Rs 3.7bn (17% above our estimates) as the drop in overall sales volumes was partially offset by higher sugar realisations. Overall sales volumes fell by 35% YoY to 56.9K tonnes (Q4FY23 included exports of 6.6K tonnes); domestic sales volumes tumbled 30% YoY. Sugar production rose by 11% YoY to 162.8K tonnes, as restricted use of cane juice/syrup to produce ethanol led to additional sugar being produced. Domestic realisation surged 10% YoY to Rs 37,630/tonnes, which translated into 4% YoY EBIT growth. EBIT margin expanded 459 bps YoY to an impressive 14.1% (estimate 7.4%).

Ethanol division (34% of 4Q revenue) – Weak performance: Revenue slid 34% YoY to Rs 1.3bn (9% below our estimate), led by 28% YoY drop in alcohol volumes to 21.1mn litres and 7% YoY drop in realisations at Rs 60.7/litre. EBIT nosedived 46% YoY to Rs 139mn and was 45% below our estimate. EBIT margin contracted 253bps YoY to 10.8% (estimate of 18%).

Valuation: Retain BUY with a revised TP of Rs 96

Subdued sales/offtake coupled with falling crushing numbers and lower capacity utilization impacted DSIL's performance during the quarter. However, company's utilization of remunerative feedstock mix to produce ethanol along with improved sugar recoveries, higher sugar realizations and finance cost rationalization supported profitability. Management is optimistic of good crushing numbers in the upcoming season as improved varietal mix and better monsoon will ensure adequate cane availability. It also expects a revision in sugar prices from June 2024 to benefit the company as it can then sell its large sugar stock at higher prices. We estimate 17%/22% CAGR in revenue/EBIT, respectively, over FY24-FY26E for the ethanol segment. Overall, DSIL to clock 24%/41% CAGR in EBIT/PAT over FY24-FY26E. DSIL currently trades at an inexpensive FY26E P/E of 8x and EV/EBITDA of 5.5x. We reiterate BUY rating with a revised SOTP-based TP of Rs 96 implies 11x P/E and 8x EV/EBITDA for FY26E. Historically, DSIL has been trading at 7x EV/EBITDA (FY08-FY24).

Other key takeaways from the concall

Industry outlook

- Despite the initial lower estimates in the early stages of the sugar season (SS), actual production numbers have been unexpectedly positive, supported by higher-than-estimated production in Maharashtra and Karnataka. Management believes sugar production numbers in UP could conclude at ~10.5mn MT, producing same as the last season.
- Sugar prices currently hover at Rs 3,800/quintal, after a brief period of resurgence, as initial sugar production estimates were lower.
- Indian Sugar Mills Association (ISMA) estimates SS 2023-24 sugar production of ~32mn MT, net of diversion of ~2mn MT towards ethanol.
- Government recently permitted the utilization of 0.67mn MT of additional B-heavy molasses to produce ethanol, but management is of the view that this allocation has come a little late as the season is almost at its closing stages.

Sugar segment - Performance highlights

- **Crushing** - In 4QFY24, 1.45mn MT of cane was crushed (down 18% YoY), with FY24 recording 3.67mn MT (down 4% YoY) and SS 2023-24 2.68mn MT (down 33% YoY). Unexpected and prolonged rains in the Bijnor district (Dwarikesh Nagar (DN) and Dwarikesh Puram (DP)) exacerbated the effects of the red-rot infestation, which negatively affected cane supply and caused significant decline in crushing numbers.
- Crushing numbers also faced challenges due to increased prices offered by Jaggery and Khandsari manufacturers for sugarcane, leading to lower availability of cane for the millers.
- **Varietal mix:** At the DD unit, non-Co-0238 variety mix stood at 34% in 4Q while the rest was Co-0238; management expects the supply of Co-0238 variety to fall to single digit in SS2024-25 as more farmers move to higher-yielding varieties. Even though crushing numbers at this unit was lower, recovery in this season is still higher by 20bps YoY. Although CO-15023 variety is considered an excellent variety, farmers are reluctant to adopt it in large quantities, given its low density and vulnerability to animal attacks. Other cane varieties like CO-118, CO-14021, CO-94184, etc., are cultivated in large quantities. The varietal change program was low in other units, as those areas saw minimal impact from the red rot.
- **FY24 production and sales - Production:** 0.35mn MT (down by 7% YoY); **overall sales:** 0.28mn MT (down 34% YoY). FY23 sale volumes includes 0.1mn MT of exports.
- **FY24 realisation** - Rs 37,070/MT (up 7% YoY)
- **Sugar inventory** - As on 31st Mar 2024, sugar inventory was 183K tonnes (up 72% YoY), valued at Rs 33,550/tonne.
- **FY24 Revenue from Cogen** – Fell 2% YoY to Rs 474.8mn

Distillery segment - Performance highlights

- **FY24 sales** - The company recorded 94,407KL (up 12% YoY) of sales in FY24, of which, 20,944KL of industrial alcohol sold was made from sugarcane juice/syrup directly compared with 46,203KL in FY23.

- **FY24 realisation** - Rs 61.8/litre (down 1% YoY)
- B-Heavy Molasses inventory as of 31st March 2024 was at 16.8k tonnes, out of this ~3K tonnes was earmarked for levy obligations.
- Management believes that the government is focused on prioritizing Ethanol Blending Programme (EBP) and might consider ethanol price hikes post elections
- **Impact of higher levy obligations for B-Heavy molasses** - For SS 2023-24 higher levy obligations for B-Heavy molasses led to expenditure rising by Rs 199.2mn in FY24. This deprived the company of the opportunity to utilize more molasses for ethanol production.

Others

- **No near-term capex plans** - The company would prioritize increasing crushing numbers, improving yield measures, and enhancing efficiencies.
- **Outstanding long-term loans** - On 31st Mar 2024, the company had outstanding long-term loans (at subsidized rate of interest) of Rs 2.15bn. Out of this, it availed Rs 2.08bn for distillery projects.
- DSIL enjoys long-term rating (ICRA) of AA-. The outlook assigned is 'Stable'. It has also retained the highest rating of A1+ from ICRA for its CP program of Rs 3bn.

Change in estimates; Reiterating BUY with a revised TP

We have raised our sugar realization for FY25E/FY26E by 1% each to Rs 38,900/Rs 40,000 per tonne, respectively, as we expect the demand-supply situation to remain tight, keeping prices firm. We have also raised our EBIT margin for the sugar segment by 340bps for FY25E/FY26E each, and distillery volumes unchanged at 114/118mn liters, respectively. We have cut overall EBITDA by 16%/12% and EPS by 22%/18% for the same period. Reiterating BUY with an SOTP-based revised TP of Rs 96. **Key risks:** Lower-than-expected recovery rate and subdued domestic sugar prices.

Exhibit 1: Change in estimates

(Rs mn)	Old Estimates		New Estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Net Sales	21,584	22,717	20,063	21,218	-7.0	-6.6
EBITDA	3,248	3,327	2,720	2,925	-16.2	-12.1
EBITDA Margin	15.0	14.6	13.6	13.8	-149bp	-86bp
Adjusted PAT	1,941	2,011	1,514	1,655	-22.0	-17.7
EPS	10.3	10.7	8.0	8.8	-22.0	-17.7
Target Price		110		96		-13.1

Source: Company, Systematix Institutional Research

Exhibit 2: SOTP valuation table

Segment	Methodology	FY26E EBIT (Rs mn)	Multiple	Value
Sugar	EV/EBIT	925	7.0x	6,473
Distillery	EV/EBIT	1,608	10.0x	16,075
Total EV				22,548
Less: Net Debt				4,549
Equity Valuation				17,999
No of shares				188
Price per share				96

Source: Company, Systematix Institutional Research

Exhibit 3: Financial snapshot

Y/E March (Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
Net Sales	3,799	5,325	(28.7)	3,129	21.4	17,096	21,030	(18.7)
Operating Expenses	3,068	4,461	(31.2)	2,869	6.9	15,046	18,884	(20.3)
% of Sales	81	84	-303bp	92	-1,096bp	88.01	89.80	-179bp
EBITDA	732	864	(15.3)	260	181.7	2,050	2,145	(4.5)
EBITDA Margins (%)	19.3	16.2	303bp	8.3	1,096bp	12.0	10.2	179bp
Other Income (Net)	21	19	12.2	60	(65.0)	117	140	(16.9)
Interest	69	59	15.8	43	61.1	201	258	(22.1)
Depreciation	126	128	(1.3)	136	(7.0)	525	502	4.5
PBT	558	696	(19.8)	142	293.7	1,440	1,525	(5.6)
Tax	329	229	43.7	44	653.6	605	477	26.8
Effective Tax Rate (%)	59	33	2,607bp	31	2,817bp	42	31	1,071bp
Adjusted PAT	229	467	(51.0)	98	133.4	836	1,048	(20.3)
NPM (%)	6.0	8.8	-274bp	3.1	289bp	4.9	5.0	-10bp
Reported PAT	229	467	(51.0)	98	133.4	836	1,048	(20.3)
No. of equity shares	188	188		188		188	188	
Adj. EPS	1.2	2.5	(51.0)	0.5	133.4	4.4	5.6	(20.3)

Source: Company, Systematix Institutional Research

Exhibit 4: Key ratios (% of net sales)

Y/E March	4QFY24	4QFY23	YoY bps chg	3QFY24	QoQ bps chg	FY24	FY23	YoY bps chg
Raw Material Cost	66.5	72.7	-615bp	69.7	-322bp	73.7	77.7	-408bp
Staff Costs	8.1	5.5	260bp	11.0	-289bp	6.9	5.6	132bp
Other Expenses	6.1	5.6	52bp	11.0	-485bp	7.4	6.4	97bp
Effective Tax rate	59.0	32.9	2,607bp	30.8	2,817bp	42.0	31.3	1,071bp
Gross Margin	33.5	27.3	615bp	30.3	322bp	26.3	22.3	408bp
OPM	19.3	16.2	303bp	8.3	1,096bp	12.0	10.2	179bp
NPM	6.0	8.8	-274bp	3.1	289bp	4.9	5.0	-10bp

Source: Company, Systematix Institutional Research

Exhibit 5: Segmental financial snapshot

Y/E March (Rs mn)	4QFY24	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
Segment Revenue								
Sugar	3,755	5,349	(29.8)	3,257	15.3	15,452	19,809	(22.0)
Distillery	1,293	1,951	(33.7)	916	41.1	5,891	5,355	10.0
Less: Intersegment Revenue	1,248	1,974	(36.8)	1,044	19.6	4,248	4,134	2.7
Total Revenue	3,799	5,325	(28.7)	3,129	21.4	17,096	21,030	(18.7)
Segment EBIT								
Sugar	530	510	4.0	63	738.6	622	768	(19.0)
Distillery	139	259	(46.3)	102	36.2	1,086	1,043	4.2
Total EBIT	669	769	(13.0)	165	304.6	1,709	1,811	(5.6)
Segment EBIT Margin								
Sugar	14.1	9.5	459bp	1.9	1,218bp	4.0	3.9	15bp
Distillery	10.8	13.3	-253bp	11.2	-39bp	18.4	19.5	-103bp
EBIT Margin	17.6	14.4	317bp	5.3	1,233bp	10.0	8.6	138bp

Source: Company, Systematix Institutional Research

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Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	19,741	21,030	17,096	20,063	21,218
EBITDA	2,908	2,145	2,050	2,720	2,925
Less: Depreciation	436	502	525	560	594
EBIT	2,472	1,643	1,525	2,160	2,331
Less: Interest Expenses	317	258	201	198	168
Add: Non operating Income	32	140	117	200	201
PBT	2,187	1,525	1,440	2,163	2,365
Less: Taxes	635	477	605	649	709
Less: Minority Interest					
Adjusted PAT	1,552	1,048	836	1,514	1,655
Add/Less: Extra-ordinaries	-	-	-	-	-
Reported PAT	1,552	1,048	836	1,514	1,655

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	188	188	188	188	188
Reserves	6,545	7,209	8,033	9,095	10,299
Net Worth	6,733	7,397	8,221	9,284	10,488
Minority Interest	-	-	-	-	-
Borrowings	5,207	3,747	4,558	3,348	2,748
Deferred Tax (Net)	-249	-36	314	0	0
Total Liabilities	11,691	11,108	13,093	12,632	13,235
Gross Block	9,512	11,956	12,489	12,493	13,243
Less: Acc. Depreciation	5,631	6,133	6,658	7,218	7,812
Net Block	3,881	5,823	5,831	5,275	5,431
Add: CWIP	1,425	0	4	750	750
Investments	3	3	3	3	3
Inventories	7,577	5,607	7,409	6,596	6,976
Trade Receivables	345	715	357	550	581
Cash & Bank Balances	2	7	6	4	9
Bank balances other than above		383	392	330	330
		330			
Trade Payables	963	551	432	550	581
Other Assets	-963	-889	-415	-326	-264
Total Assets	11,691	11,108	13,093	12,632	13,235
Net Debt	5,201	3,737	4,549	3,340	2,735
WC Days	115	90	154	119	120

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	2,187	1,525	1,440	2,163	2,365
Add: Non Cash items	359	360	376	109	52
Cash profit	2,546	1,885	1,816	2,272	2,417
Add/Less: WC Changes	840	1254	-1682	334	-442
Operating Cash Flow	3,386	3,139	134	2,606	1,975
Less: Capex	-1,607	-979	-506	-750	-750
Free Cash Flow	1,778	2,160	-372	1,856	1,225
Financing Cash Flow	-1,408	-2,220	272	-1,858	-1,220
Investing Cash Flow	-1,976	-915	-407	-750	-750
Net change in Cash	1	4	-1	-2	5
Add: Opening Cash	2	3	7	6	4
Closing Cash	3	7	6	4	9

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Income Statement Ratio (%)					
Revenue Growth	7.4	6.5	(18.7)	17.4	5.8
EBITDA Growth	44.5	(26.2)	(4.5)	32.7	7.5
PAT Growth	69.6	(32.5)	(20.3)	81.2	9.3
EBITDA Margin	14.7	10.2	12.0	13.6	13.8
Net Margin	7.9	5.0	4.9	7.5	7.8
Return & Liquidity Ratio					
D/E (x)	0.8	0.5	0.6	0.4	0.3
Net Debt/Equity (x)	0.7	0.5	0.5	0.3	0.2
ROE (%)	24.8	14.8	10.7	17.3	16.7
ROCE (%)	21.2	14.2	12.6	16.8	18.0
Per Share data & Valuation Ratio					
Diluted EPS (Rs/Share)	8.2	5.6	4.4	8.0	8.8
EPS Growth (%)	69.6	(32.5)	(20.3)	81.2	9.3
DPS (Rs/Share)	2.0	2.0	2.0	2.0	2.0
P/E Ratio (x)	8.9	13.1	16.4	9.1	8.3
EV/EBITDA (x)	6.4	8.0	8.8	6.2	5.5
EV/Sales (x)	0.9	0.8	1.0	0.8	0.8
BVPS (INR)	35.8	39.3	43.7	49.3	55.7
Price/Book (x)	2.0	1.9	1.7	1.5	1.3
Dividend Yield (%)	2.7	2.7	2.7	2.7	2.7

Source: Company, Systematix Institutional Research

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