

## Robust numbers despite high cost of production...

**About the stock:** Dwarikesh Sugar (DSL) is a UP based sugar company with sugar crushing capacity of 21500 TCD, distillery capacity of 337.5 KLD & co-generation capacity of 91 MW. The company commissioned 175 KLD distillery in June 2022 at its Bareilly plant with the investment of ₹ 230 crore.

- The company would be able to increase distillery volumes to 11 crore litre in FY24 from 5.6 crore litre in FY22

**Q1FY23 Results:** Posted strong results aided by sugar exports, ethanol volumes.

- Sales was up by 64.8% YoY, driven by 71.9% growth in sugar sales
- EBITDA was at ₹ 76.6 crore, up 30.8% YoY, with margins at 11.8%
- Consequent PAT was at ₹ 39.7 crore (up 46.5% YoY)

**What should investors do?** DSL's share price has gone up 73% in the last five years (from ₹ 66 in August 2017 to ₹ 115 in August 2022).

- We expect 44.5% CAGR in distillery sales, which would boost earnings growth with CAGR of 32% during FY22-24E for the company
- We continue to maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 150, valuing the business at 10x FY24 PE.

**Key triggers for future price performance:**

- Distillery revenue to grow at 44.5% CAGR in FY22-24E with 2x increase in ethanol volumes and 3% increase in distillery realisation led by higher proportion of B-heavy & sugarcane juice ethanol
- Higher exports aided by rising global sugar prices, sugarcane diversion towards ethanol led to industry wide 8 MT inventory reduction since 2019 (may further fall by 1.0 MT by September 2022), leading to firm sugar prices
- With increasing profitability & reduction in sugar inventory, the company would be able to generate cumulative ₹ 410 crore free cash flows in the next two years. It would completely de-leverage the balance sheet

**Alternate Stock Idea:** We like Dalmia Bharat Sugar in our sugar coverage.

- It is fastest in utilising B-heavy & sugarcane juice to produce ethanol. Distillery volumes to grow 1.8x to 22 crore litre by FY24. The company is aggressively exporting sugar & utilising higher global white sugar prices
- We value the stock at ₹ 490/share with a BUY recommendation



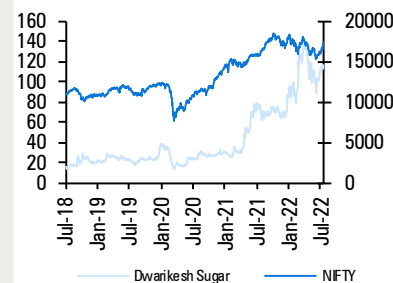
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	2,165.5
Total Debt (FY22)	520.7
Cash and Investments (FY22)	38.6
EV	2,647.6
52 week H/L (₹)	148 / 62
Equity capital	18.8
Face value (₹)	1.0

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	42.1	42.1	42.1	42.1
FII	2.8	4.1	7.7	7.2
DII	4.0	4.0	3.3	3.3
Others	51.1	49.8	47.0	47.5

### Price Chart



### Recent event & key risks

- It has commission new 175 KLD distillery by June 2022
- Key Risk:** (i) Fall in global sugar prices could impact sugar exports from India in future (ii) Any dip in recovery rate due to weather disruptions

### Research Analyst

Sanjay Manyal  
sanjay.manyal@icicisecurities.com

### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	1336.2	1838.9	1974.1	10.6%	2174.1	2279.8	7.5%
EBITDA	136.1	201.3	290.8	1.2%	310.4	430.0	21.6%
EBITDA Margin %	10.2	10.9	14.7		14.3	18.9	
Net Profit	73.5	91.5	155.2	-0.1%	181.7	270.3	32.0%
EPS (₹)	3.9	4.9	8.2		9.6	14.4	32.0%
P/E	29.5	23.7	14.0		11.9	8.0	
RoNW %	15.2	15.8	23.1		21.2	25.5	
RoCE (%)	9.0	14.4	20.6		20.4	30.3	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q1FY23 Results: Strong distillery volumes aiding profitability

- Revenues witnessed growth of 64.8% to ₹ 646.5 crore led by splendid growth of 71.9% in sugar & 42.2% growth in distillery segment
- Sugar segment sales growth has been led by 58.7% increase in sugar volumes aided by sugar export of 50,000 tonnes. Domestic sales quota was also up 7% to 1.03 lakh tonnes (lt). Total sugar sold during the quarter was 1.53 lt. Domestic sugar realisation was up 7.6% to ₹ 34.6/kg YoY
- Distillery sales growth of 42.2% was led by 21.9% growth in ethanol volumes & 2.6% growth in realisation. It sold 1.56 crore litre of ethanol with average realisation of ₹ 59.1/litre. The growth in ethanol volumes was driven by full utilisation level of existing distillery capacities whereas realisation was up due to higher proportion of B-heavy ethanol
- Power sales saw dip of 7.1% to ₹ 66.5 crore. Power sales volumes was lower by 15% to 2.8 crore units whereas power tariff improved from ₹ 3.2 / unit to ₹ 3.3 /unit
- The 7.5% increase in sugarcane prices in 2021-22 sugar season & lower sugar recoveries (20-25 bps lower) resulted in almost ₹ 3/kg increase in cost of production. Operating profit grew 30.8% to ₹ 76.6 crore mainly on account of increase in distillery sales. Interest cost was down 19.6% to ₹ 11 crore due to lower working capital requirement. This led to the net profit growth of 46.5% to ₹ 39.7 crore
- The company has commissioned its 175 KLD new distillery during the quarter. This would take the company's total distillery capacity to 335 KLD (11 crore litre per annum). We believe the company would be diverting 10% its sugarcane towards sugarcane juice from 2022-23 sugar season. It would continue to maintain sugar inventories at optimum levels and, in turn, reduce working capital requirement
- The company is holding sugar inventory of 1.33 lt valued at ₹ 31.79/kg compared to 2.54 lt valued at 29.2/kg in the corresponding quarter
- Long term debt for the company is ₹ 306 crore, which includes ₹ 252 crore taken for distillery projects. Working capital debt as on June 2022 is nil. The entire debt is at a concessional interest rate
- The current season inventory would be exhausted by October 2022 given July & August domestic quota is already 0.37 lt each
- The company is changing sugarcane variety in its catchment area given Co-0238 variety is not prone to red-rot disease. In 2022-23 season, 15% of the sugarcane crushing by company would consist of newer varieties and in next three years ~70% of the variety would be replaced by newer variety (15023 & 14121 are new sugarcane varieties)
- The company would be undertaking expansion in refined sugar from January 2023 onwards and new refinery capacity would be commissioned in November-2023. This would improve sugar realisation for the company given 30% of its total sugar production would be high quality refined sugar
- The company witnessed lower sugar recovery during the 2021-22 sugar season due to excess rains in October-21 in one of its plant's catchment area & impact of red-rot in similar areas. The company would try to improve sugar recoveries in 2022-23 season
- Income tax provisioning for FY23 and FY24 would be closer to 30% given the company has MAT credits available. In FY25, it would be moving to a lower income tax regime

- Given sugar production in 2022-23 season is also likely to be very high of 35.5 MT (after diversion of 4.5 MT), the government is also likely to announce export policy for next year in September 2022
- Ethanol blending in the country has reached 10.17%. OMCs have contracted for 445 crore litre out of the total requirement of 459 crore litre for 2020-21 (December – October). Out of this total, OMCs have lifted 283 crore litre of ethanol till July 17, 2022. The government has also declared incentives for ethanol supply from June-November 2022 to the tune of ₹ 1-2/litre depending on the feedstock (B-heavy, sugarcane juice)

Exhibit 1: Peer Comparison

Sector / Company	CMP			M Cap (₹ Cr)	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)			
	(₹)	TP (₹)	Rating		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Balrampur Chini (BALCHI)	393	515	Buy	8254	-3.2	-0.3	36.3	37.4	14.8	14.4	17.7	20.5	17.2	17.3	12.7	9.2	2.9	2.8	2.5	2.2	16.4	15.3	17.6	23.0
Dalmia Bharat Sugar (DALSUG)	362	490	Buy	2931	39.9	10.0	15.8	16.5	17.6	14.8	18.0	19.0	10.8	9.9	8.5	7.3	1.4	1.3	1.3	1.1	13.3	12.3	15.5	17.7
Triveni Engineering (TRIENG)	250	350	Buy	6034	-9.9	43.9	15.5	22.6	11.9	14.8	15.2	17.3	20.5	14.2	12.3	10.0	3.6	2.9	2.5	2.1	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	115	150	Buy	2165	24.5	69.6	17.1	48.7	10.9	14.7	14.3	18.9	23.7	14.0	11.9	8.0	3.7	3.2	2.5	2.0	14.4	20.6	20.4	30.3
Avadh Sugar (AVASUG)	559	890	Buy	1118	-12.4	60.3	53.9	21.3	9.6	11.0	13.1	13.8	14.4	9.0	5.8	4.8	1.6	1.3	1.1	0.9	11.5	12.5	17.8	22.0

Source: Company, ICICI Direct Research

Dwarikesh is one of the most efficient sugar companies with best sugar recovery, abundance sugarcane availability & optimum distillery capacity. With the commissioning of new distillery capacity, we believe the company would be able to generate ~30% of its revenue from distillery segment in FY24E, which would drive the profitability in next two years. The higher diversion of sugarcane towards ethanol is likely to result in lower working capital requirement. The company is undertaking capex for sugar refinery, which would improve its sugar export realisation going forward. With the expected optimum sugar inventory in the country (~5.5-6.0 million tonnes), domestic sugar prices are likely to remain firm above ₹ 35 /kg in FY23. We believe sustainable growth for sugar companies on the back of increasing ethanol blending would result in multiple re-rating, going forward. Sugar stocks are trading at attractive multiples after recent correction. We maintain our **BUY** rating with a revised target price of ₹ 150/share (earlier ₹ 145).

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	646.5	392.2	64.8	475.0	36.1	Revenues witness growth of 64.8% led by 71.9% growth in sugar & 42.2% growth in distillery segment
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	516.6	294.7	75.3	328.2	57.4	Gross margins contracted due to ₹ 3/ kg increase in cost of production on account of higher sugarcane prices & lower sugar recovery
Employee Expense	24.1	20.7	16.4	24.6	-1.9	
Other operating Expenses	29.2	18.2	60.2	19.7	48.1	Overhead spends increased due to increasing volumes of distillery & spends related to commencement of new 175 KLD distillery
EBITDA	76.6	58.5	30.8	102.4	-25.3	Operating profit grew 30.8% to ₹ 76.6 crore
EBITDA Margin (%)	11.8	14.9	-308 bps	21.6	-973 bps	
Depreciation	10.8	10.2	5.4	11.8	-8.3	
Interest	11.0	13.7	-19.6	5.5	102.1	With the reduction in working capital debt, interest cost have come down by 19.6%
Other Income	2.0	1.0	88.2	0.5	277.7	
PBT	56.7	35.6	59.1	85.7	-33.9	
Tax Outgo	17.0	8.5	99.3	26.1	NC	
PAT	39.7	27.1	46.5	59.6	-33.4	Net profit grew 46.5% to ₹ 39.7 crore
<b>Key Metrics</b>						
Sugar sales volume (in tonnes)	152,920	96,380	58.7	101,090	51.3	Sugar sales increased by 58.7% on account of 50,000 tonnes of exports during the quarter
Domestic Sugar realisation (₹ per kg)	34.6	32.1	7.6	33.9	2.1	Sugar realisation have gone up by 7.6% on account of dismal sugar prices in base quarter due to Covid-19 second wave
Distillery volumes (in crore litre)	1.6	1.3	21.9	1.7	-5.5	Distillery volumes increased by 21.9%
Distillery realisation (₹ per litre)	59.1	57.6	2.6	59.1	0.0	With higher proportion of B-heavy sales, distillery realisation increased by 2.6%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	2,161.9	2,174.1	0.6	2,262.9	2,279.8	0.7	Small change in ethanol realisation after government announced incentives in June for the rest of the ethanol
EBITDA	307.6	310.4	0.9	423.1	430.0	1.6	
EBITDA Margin (%)	14.2	14.3	5 bps	18.7	18.9	16 bps	
PAT	179.6	181.7	1.2	265.2	270.3	1.9	
EPS (₹)	9.5	9.6	1.2	14.1	14.4	1.9	

Source: ICICI Direct Research

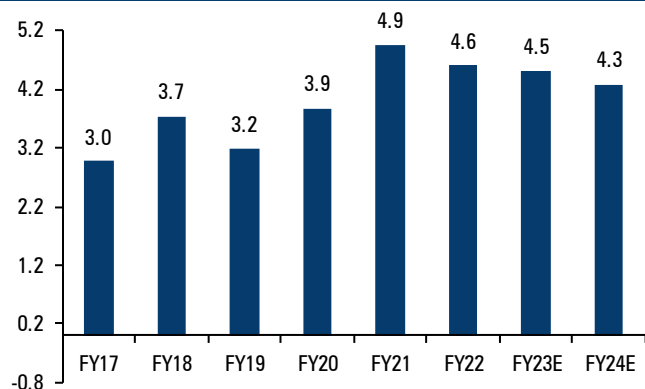
Exhibit 4: Assumptions

	Current				Earlier				Comments
	FY19	FY20	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sugar Sold (in tonne)	3,17,700	3,87,848	4,94,890	4,59,850	4,50,653	4,28,120	4,50,653	4,28,120	
Sugar Price (₹ per tonne)	29,628	31,301	32,099	33,907	35,250	35,500	35,250	35,500	
Distillery volume	9,017	11,600	31,700	55,700	80,133	1,09,725	80,133	1,09,725	
Distillery price (₹ per KL)	40,278	48,276	50,223	58,399	61,319	61,932	59,946	60,545	Change in ethanol realisation after government announced incentives from June onwards
Power Units sold	20.2	16.3	17.1	16.0	17.5	17.0	17.5	17.0	
Price per unit (₹ per units)	5.0	2.9	3.1	3.2	3.3	3.3	3.3	3.3	

Source: ICICI Direct Research

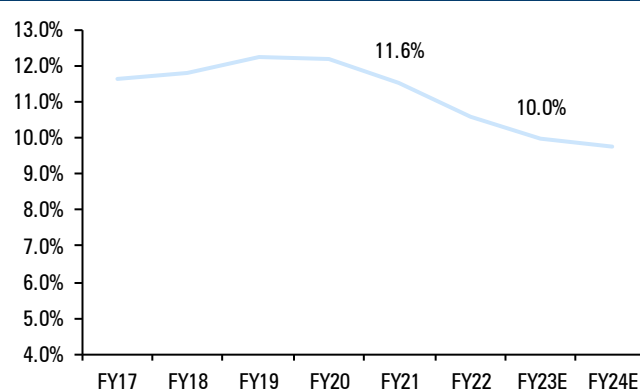
## Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



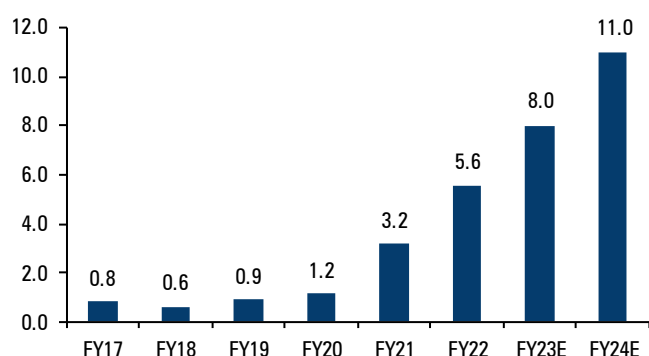
Source: ICICI Direct Research, Company

Exhibit 6: Sugar recovery rate (%)



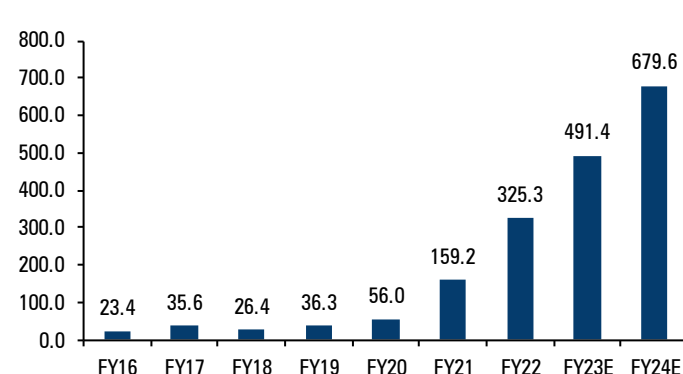
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



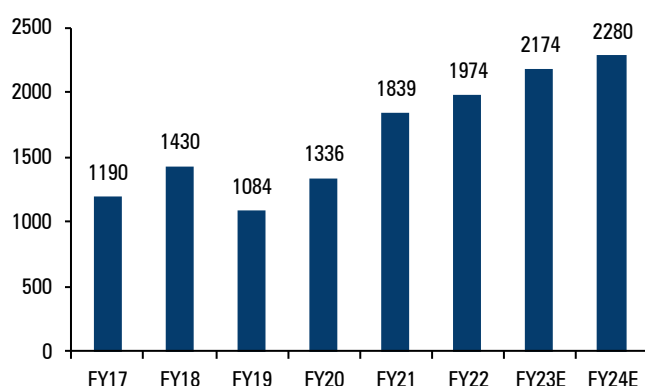
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



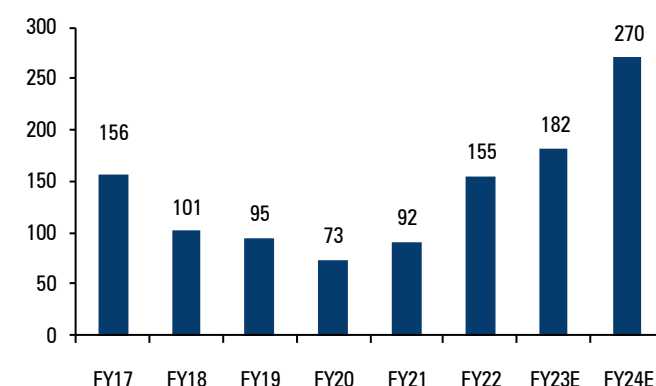
Source: Company, ICICI Direct Research

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	23.7	13.5	15.8	14.4
FY22	1974.1	7.4	8.2	69.6	14.0	9.0	23.1	20.6
FY23E	2174.1	10.1	9.6	17.1	11.9	8.2	21.2	20.4
FY24E	2279.8	4.9	14.4	48.7	8.0	9.8	25.5	30.3

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 12: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total Operating Income</b>	<b>1,838.9</b>	<b>1,974.1</b>	<b>2,174.1</b>	<b>2,279.8</b>
Growth (%)	37.6	7.4	10.1	4.9
Raw Material Expenses	1,431.1	1,475.3	1,642.0	1,605.9
Employee Expenses	92.7	96.3	102.2	114.0
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	113.8	111.7	119.6	129.9
Total Operating Expenditure	1,637.6	1,683.3	1,863.7	1,849.8
<b>EBITDA</b>	<b>201.3</b>	<b>290.8</b>	<b>310.4</b>	<b>430.0</b>
Growth (%)	47.9	44.5	6.7	38.5
Depreciation	40.9	43.6	50.7	60.4
Interest	47.7	31.7	20.5	12.1
Other Income	7.1	3.2	3.8	3.8
PBT	112.7	215.5	239.1	357.5
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	28.3	63.5	61.2	91.0
<b>PAT</b>	<b>91.5</b>	<b>155.2</b>	<b>181.7</b>	<b>270.3</b>
Growth (%)	24.5	69.6	17.1	48.7
EPS (₹)	4.9	8.2	9.6	14.4

Source: Company, ICICI Direct Research

### Exhibit 13: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	119.8	218.7	181.7	270.3
Add: Depreciation	40.9	43.6	50.7	60.4
Add: Interest	47.7	31.7	0.0	0.0
(Inc)/dec in Current Assets	108.1	132.5	126.0	43.6
Inc/(dec) in Current Liabilities	-15.0	-34.6	-18.5	1.1
<b>CF from operating activities</b>	<b>295.6</b>	<b>352.5</b>	<b>339.9</b>	<b>375.4</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-19.5	-175.3	-255.0	-50.0
Others	1.9	0.7	38.3	0.0
<b>CF from investing activities</b>	<b>-17.6</b>	<b>-174.7</b>	<b>-216.7</b>	<b>-50.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-236.1	-85.0	-110.0	-260.0
Dividend paid & dividend tax	0.0	-61.2	-37.7	-65.9
Inc/(dec) in Sec. premium	-0.3	-0.2	38.8	0.0
Others	-43.4	-31.3	0.0	0.0
<b>CF from financing activities</b>	<b>-279.8</b>	<b>-177.7</b>	<b>-108.9</b>	<b>-325.9</b>
Net Cash flow	-1.8	0.1	14.4	-0.5
Opening Cash	1.9	0.1	0.2	14.6
Cash with bank	1.0	38.3	0.0	0.0
<b>Closing Cash</b>	<b>1.2</b>	<b>38.6</b>	<b>14.6</b>	<b>14.1</b>

Source: Company, ICICI Direct Research

### Exhibit 14: Balance Sheet ₹ crore

	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	18.8	18.8	18.8	18.8
Reserve and Surplus	560.1	654.5	837.2	1,041.6
Total Shareholders funds	578.9	673.3	856.1	1,060.4
Total Debt	556.8	520.7	410.7	150.7
Long Term Provisions	21.8	22.3	20.3	18.3
Other Non-current Liabilities	2.2	1.4	1.4	1.4
<b>Total Liabilities</b>	<b>1,159.7</b>	<b>1,217.7</b>	<b>1,288.5</b>	<b>1,230.8</b>
<b>Assets</b>				
Gross Block	931.5	953.2	1,208.2	1,258.2
Less: Acc Depreciation	521.5	565.1	615.9	676.3
Net Block	409.9	388.1	592.4	582.0
Capital WIP	0.5	142.5	142.5	142.5
Intangible assets	0.0	0.0	0.0	0.0
Non Current Investments	0.1	0.3	0.3	0.3
Other non-current assets	53.2	41.7	41.7	41.7
<b>Current Assets</b>				
Inventory	855.3	757.7	573.7	506.6
Debtors	67.9	34.5	72.5	76.0
Cash	1.2	38.6	14.6	14.1
Loans & Advances	0.1	0.3	0.3	0.3
Other Current Assets	57.2	15.8	35.8	55.8
<b>Current Liabilities</b>				
Creditors	187.2	96.3	79.8	82.9
Provisions	3.8	4.4	4.4	4.4
Other CL	94.7	101.1	101.1	101.1
Net Current Assets	696.0	645.0	511.6	464.3
<b>Total Assets</b>	<b>1,159.7</b>	<b>1,217.7</b>	<b>1,288.5</b>	<b>1,230.8</b>

Source: Company, ICICI Direct Research

### Exhibit 15: Key ratios

	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	4.9	8.2	9.6	14.4
Cash EPS	7.0	10.6	12.3	17.6
BV	30.7	35.8	45.5	56.3
DPS	0.0	1.3	2.0	3.5
Cash Per Share	27.7	30.0	32.7	35.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	10.9	14.7	14.3	18.9
PBT / Net Sales	6.5	11.1	11.2	15.8
PAT Margin	5.0	7.9	8.4	11.9
Inventory days	169.8	140.1	96.3	81.1
Debtor days	13.5	6.4	12.2	12.2
Creditor days	37.2	17.8	13.4	13.3
<b>Return Ratios (%)</b>				
RoE	15.8	23.1	21.2	25.5
RoCE	14.4	20.6	20.4	30.3
<b>Valuation Ratios (x)</b>				
P/E	23.7	14.0	11.9	8.0
EV / EBITDA	13.5	9.0	8.2	5.3
EV / Net Sales	1.5	1.3	1.2	1.0
Market Cap / Sales	1.2	1.1	1.0	0.9
Price to Book Value	3.7	3.2	2.5	2.0
<b>Solvency Ratios</b>				
Debt/EBITDA	2.8	1.8	1.3	0.4
Debt / Equity	1.0	0.8	0.5	0.1
Current Ratio	4.9	7.2	7.1	6.5
Quick Ratio	0.6	0.5	1.1	1.3

Source: Company, ICICI Direct Research

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

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)			
	(₹)	(₹)		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Balrampur Chini (BALCHI)	393	515	Buy	8,254	22.8	22.8	31.0	42.6	17.2	17.3	12.7	9.2	12.3	12.5	9.9	7.2	2.9	2.8	2.5	2.2	16.4	15.3	17.6	23.0
Dalmia Bharat Sugar (DALSUG)	362	490	Buy	2,931	33.4	36.7	42.5	49.6	10.8	9.9	8.5	7.3	8.2	8.3	6.3	5.1	1.4	1.3	1.3	1.1	13.3	12.3	15.5	17.7
Triveni Engineering (TRIENG)	250	350	Buy	6,034	12.2	17.5	20.3	24.8	20.5	14.2	12.3	10.0	11.5	11.2	9.1	7.1	3.6	2.9	2.5	2.1	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	115	150	Buy	2,165	4.9	8.2	9.6	14.4	23.7	14.0	11.9	8.0	13.5	9.0	8.2	5.3	3.7	3.2	2.5	2.0	14.4	20.6	20.4	30.3
Avadh Sugar (AVASUG)	559	890	Buy	1,118	38.8	62.2	95.7	116.1	14.4	9.0	5.8	4.8	8.8	7.4	4.9	3.5	1.6	1.3	1.1	0.9	11.5	12.5	17.8	22.0

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)



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