Dalmia Bharat Sugar (DALSUG)

CMP: ₹ 112 | Target: ₹ 150 (34%) | Target Period: 12 months | BUY

June 20, 2020

Sugar exports, distillery sales to perk up cash flows

Dalmia Bharat Sugar reported Q4FY20 results with a 3.3% decline in sales on account of 11.2% de-growth in sugar volumes. The company sold 1.27 lakh tonnes (lt) of sugar. It was allocated 0.98 lt of domestic quota, which implies it has exported 0.27 lt of sugar. This is significantly lower considering it is expected to export 1.49 lt in the current crushing season. We believe a significant quantity of this would be exported in H1FY21, which would result in liquidation of excess sugar inventory. The company crushed 48.5 lt of sugarcane in the 2019-20 crushing season. We believe it would have produced close to 5.5 lt in the 2019-20 crushing season. Diversion towards B heavy ethanol would have been close to 50% given two of its plant Jawaharpur & Nigohi in UP were producing B heavy molasses. These two plants crush close to ~25 lt of sugarcane in a year.

Distillery revenues to aid earnings

With the 240 KLD distillery capacity, the company was able to produce 6.8 crore litre & sell 6.4 crore litre during the year. The distillery operated for 280 days (our estimate). However, the company commissioned the incineration boiler at its Jawaharpur plant, which would enable it to run for 330 days. We estimate 10.1% CAGR in distillery revenues during FY20-22E to ₹ 405 crore. Moreover, with ~55-60% sugarcane diversion towards B heavy molasses, the company would sacrifice considerable amount of sugar in coming season. We believe diversion towards B heavy ethanol and aggressive sugar exports would result in rationalisation of sugar inventories in next two years.

Increase in MSP, export subsidy to drive cash-flows

Despite 40% production drop in Maharashtra, Dalmia has crushed highest ever sugarcane in the state mainly due to fewer other mills operating in its catchment area. Though the company has seen steady earnings growth, high inventory levels stay a concern. We believe Dalmia would export significant quantity in H1FY21. Moreover, the government is likely to continue the policy of export subsidy, helping the company to liquidate excess inventory. Further, we believe likely increase in minimum selling price (MSP) by ₹ 2/kg would also aid earnings, cash flows. We expect ₹ 178, ₹ 278 crore of operating cash flow generation in FY21E, FY22E, respectively.

Valuation & Outlook

With the ~₹ 450 crore of cash flow generation and no capex in the near term, the company is likely to reduce its working capital debt by ~₹ 300 crore in the next two years. Dalmia also has investments (current & non-current) of ~₹ 400 crore in the books. Given stable earnings, reducing working capital debt & investments, the stock is trading at attractive FY21E earnings multiple of 4.5x. We value the stock at 6x FY21 earnings with a target price of ₹ 150/share and with a **BUY** recommendation on the stock.

Particulars

Particulars (₹ crore)	Amount
Market Capitalization	906.5
Total Debt (FY20)	1,192.6
Cash and Investments (FY20)	67.1
EV	2,032.0
52 week H/L (₹)	134 / 40
Equity capital	16.2
Face value (₹)	2.0

Key Highlights

- On full year basis, the company sold 8.6% lower sugar at 4.85 lakh tonnes as it has not yet exported allocated quantities
- Distillery volumes increased 28% to 6.4 crore litre in FY20
- Maintain BUY recommendation on stock with target price of ₹ 150

Research Analyst

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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	2259.1	2345.0	7.4%
EBITDA	234.2	265.7	260.5	254.7	275.9	2.9%
EBITDA Margin %	10.4	13.2	12.8	11.3	11.8	
Net Profit	122.3	175.2	193.2	202.2	217.9	6.2%
EPS (₹)	15.11	21.64	23.87	24.98	26.92	
P/E	7.4	5.2	4.7	4.5	4.2	
RoNW %	8.1	11.4	9.0	11.9	11.5	
RoCE (%)	8.1	9.8	11.8	11.1	11.4	

Source: Company, ICICI Direct Research

Result Update

ICICI Securities – Retail Equity Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	550.1	568.9	-3.3	504.4	9.0	Revenues declined by 3.3% on account of lower exports sales during the quarter. Further, distillery volumes grew at a slower pace of 5.6% as offtake by OMCs in the last 10 days of March impacted by lockdown
Other Operating Income	16.5	20.1	N.A.	15.6	N.A.	
Raw Material Expenses	345.9	359.4	-3.8	352.6	-1.9	Gross margins remain at 37.1% due to stable sugarcane prices & marginal uptick in sugar prices
Employee Expense	37.8	39.3	-3.7	36.8	2.8	
Other operating Expenses	70.5	73.5	-4.1	60.2	17.1	
EBITDA	95.9	96.8	-0.9	54.9	74.7	
EBITDA Margin (%)	17.4	17.0	43 bps	10.9	655 bps	
Depreciation	15.1	42.4	-64.5	15.2	-0.9	
Interest	25.8	26.6	-2.8	16.6	55.9	
Other Income	16.5	20.1	-18.1	15.6	6.0	
PBT	71.5	47.9	49.4	38.7	84.8	
Tax Outgo	9.5	1.7	452.9	12.0	-21.0	
PAT	62.0	46.2	34.3	26.7	132.5	Net profit grew 34.3% on account of impairment of ₹ 28 crore in the base quarter
Key Metrics						
Sugar sales volume (in lakh tonnes)	1.3	1.4	-11.2	1.2	8.5	Sugar volumes were down 11.2% as the company is yet to export sgnificant part of allocated quantity
Sugar realisation (₹ per kg)				-		
Distillery volumes (in crore litre)	1.9	1.8	5.6	1.6	20.3	Distillery volumes grew 5.6% despite capacity addition as OMCs could not offtake ethanol at the end of March, impacted by lockdown
Distillery realisation (₹ per litre)	-	-		-		

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E	
(₹ Crore)	**Old**	**New**	**% change**	**New**	**Comments**
Net sales	2324.4	2259.1	-2.8	2,458.4	Marginal change in FY21 estimate. We introduce FY22 numbers
EBITDA	253.4	254.7	0.5	275.9	
EBITDA Margin (%)	10.9	11.3	37 bps	11.2	
Adjusted PAT	199.5	202.2	1.3	217.9	
EPS (₹)	24.60	25.0	1.5	26.92	

Source: Company, ICICI Direct Research

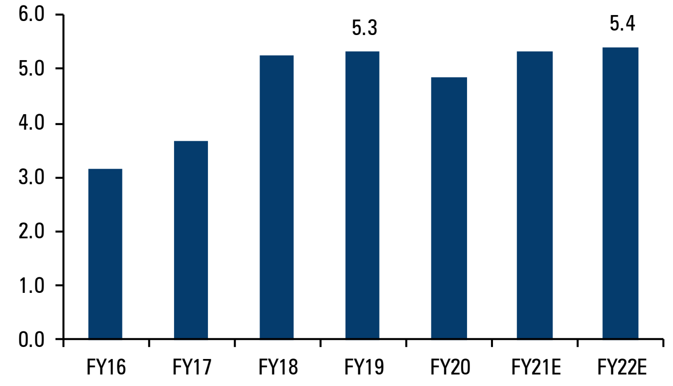
Exhibit 3: Assumptions

	Current					Earlier	
	FY18	**FY19**	**FY20E**	**FY21E**	**FY22**	**FY21E**	**Comments**
Sugar Sold (in tonne)	524,000	531,000	485,000	533,500	538,835	549,851	We change our sugar volumes & price estimates on account of lower domestic allocated quota to the company & dip in sugar prices in Maharashtra
Sugar Price (₹ per tonne)	36,442	30,680	33,000	32,500	33,000	33,500	
Distillery volume	28,810	48,030	68,400	76,800	81,600	72,000	We revise our distillery & power volumes numbers upwards due to higher sugarcane crushing & sufficient availibility of molasses & bagasses
Distillery price (₹ per KL)	43,877	44,705	48,862	49,010	49,649	51,114	
Power Units sold	35.0	38.0	33.0	35.8	36.9	33.6	
Price per unit (₹ per units)	5.5	5.2	3.7	3.5	3.7	3.5	

Source: Company, ICICI Direct Research

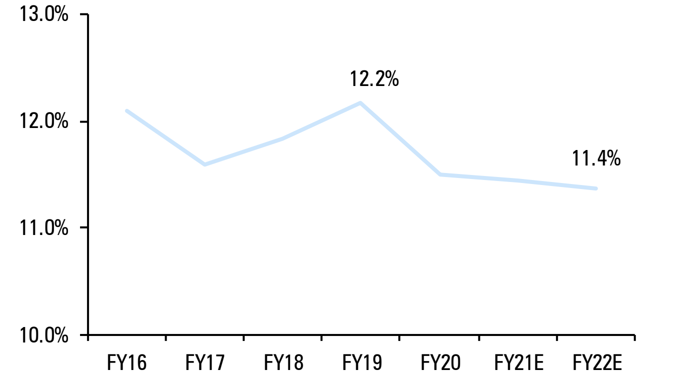
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



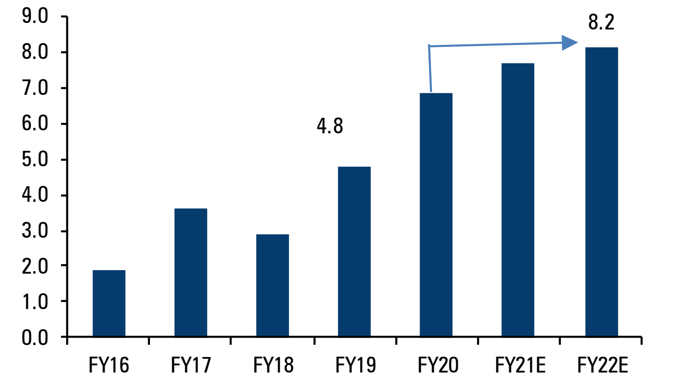
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



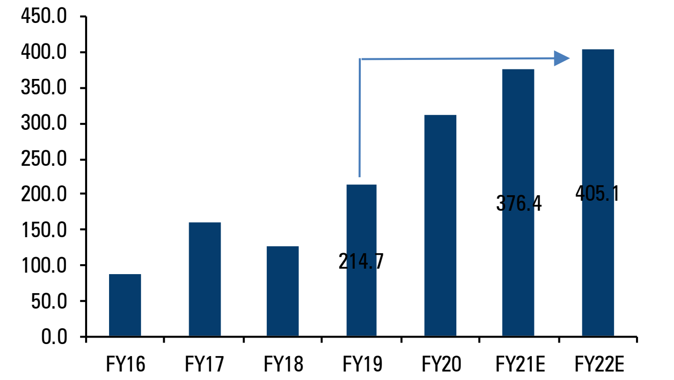
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



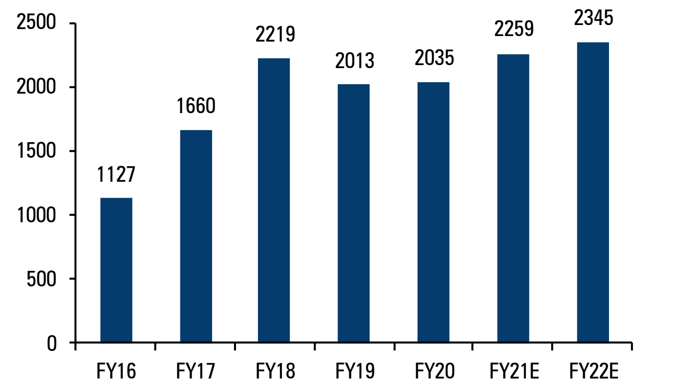
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



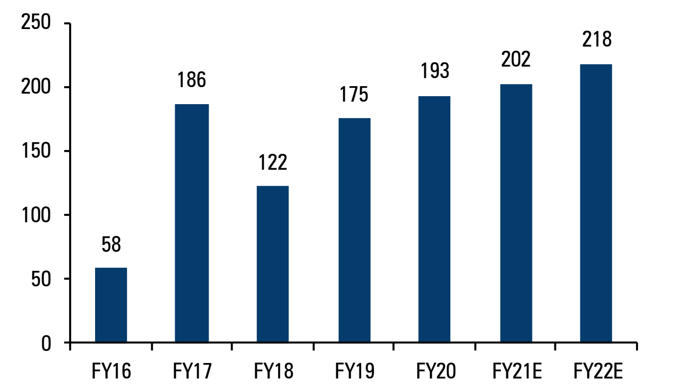
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Net profit trend (₹ crore)



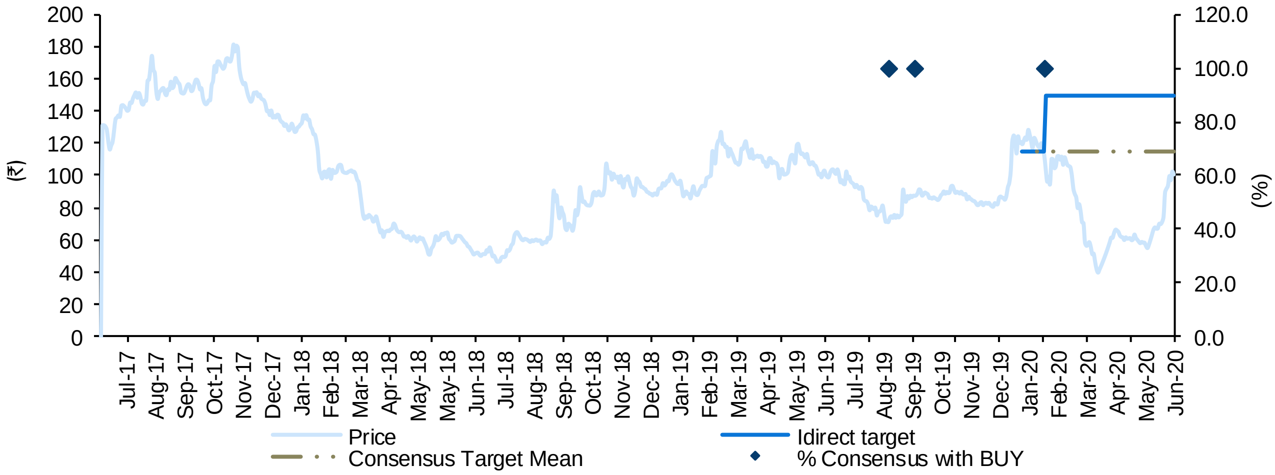
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales	Growth	Adj. EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	2018.5	-10.1	21.64	43.2	5.2	6.9	11.4	9.8
FY20	2034.7	0.8	16.95	-21.7	4.7	7.7	9.0	11.8
FY21E	2259.1	11.0	24.98	47.4	4.5	7.5	11.9	11.1
FY22E	2345.0	3.8	26.92	7.8	4.2	6.2	11.5	11.4

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 &	31-Mar-20	44.3	35.9	0.0
2	Dalmia Bharat Ltd	31-Mar-20	18.3	14.8	0.0
3	Vanika Comm & Hold L	31-Mar-20	10.7	8.7	0.0
4	Goel Anil Kumar	31-Dec-19	2.2	1.8	1.8
5	Investor Education &	31-Dec-19	1.6	1.3	0.0
6	Life Insurance Corp	31-Dec-19	1.5	1.2	0.0
7	Dalmia Jai Hari	31-Mar-20	0.7	0.6	0.0
8	Shri Brahma Creation	31-Mar-20	0.4	0.3	0.0
9	Dalmia Gautam	31-Mar-20	0.2	0.2	0.0
10	Government Of India	31-Dec-19	0.2	0.1	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	74.9	74.9	74.9	74.9	74.9
FII	2.6	3.0	2.0	0.8	0.4
DII	1.9	1.9	1.9	1.9	2.0
Others	20.6	20.2	21.2	22.4	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**	**2,259.1**	**2,345.0**
Growth (%)	-10.1	0.8	11.0	3.8
Raw Material Expenses	1,408.2	1,407.0	1,629.4	1,684.5
Employee Expenses	118.7	133.6	135.5	150.1
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	239.5	234.5
Total Operating Expenditure	1,752.8	1,774.2	2,004.4	2,069.1
EBITDA	**265.7**	**260.5**	**254.7**	**275.9**
Growth (%)	13.5	-2.0	-2.2	8.3
Depreciation	80.2	57.2	60.2	61.5
Interest	68.6	88.4	67.8	55.4
Other Income	74.7	132.6	126.0	113.4
PBT	116.9	114.9	126.7	159.0
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**	**202.2**	**217.9**
Growth (%)	43.2	10.3	4.6	7.8
EPS (₹)	21.6	23.9	25.0	26.9

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	202.2	217.9
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	-77.3	-92.2
Inc/(dec) in Current Liabilities	2.8	1.1	-6.9	91.6
CF from operating activities	**-220.4**	**72.4**	**178.2**	**278.8**
(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	-150.0	-190.0
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**	**-174.3**	**-214.3**
Net Cash flow	-31.0	38.4	-55.4	10.6
Opening Cash	59.0	28.0	66.5	11.1
Cash with bank	0.5	0.6	0.0	0.0
Closing Cash	**28.6**	**67.1**	**11.1**	**21.6**

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	1,680.5	1,874.1
Total Shareholders funds	1,531.7	1,518.8	1,696.7	1,890.3
Total Debt	977.8	1,192.6	1,042.6	852.6
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**	**2,885.4**	**2,888.1**
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	1,380.5	1,433.1
Debtors	203.6	169.8	175.7	195.4
Cash	28.6	67.1	11.1	21.6
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	145.2	231.1
Net Current Assets	1,068.9	1,350.8	1,377.9	1,388.1
Total Assets	**2,649.2**	**2,858.5**	**2,885.4**	**2,888.1**

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios (₹ crore)

	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	21.6	23.9	25.0	26.9
Cash EPS	31.5	30.9	32.4	34.5
BV	189.2	187.6	209.6	233.5
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	11.3	11.8
PBT / Net Sales	0.1	0.1	0.1	0.1
PAT Margin	8.7	6.7	9.0	9.3
Inventory days	198.6	238.4	223.1	223.1
Debtor days	36.9	30.5	28.4	30.4
Creditor days	76.2	72.1	68.3	66.9
Return Ratios (%)				
RoE	11.4	9.0	11.9	11.5
RoCE	9.8	11.8	11.1	11.4
Valuation Ratios (x)				
P/E	5.2	4.7	4.5	4.2
EV / EBITDA	6.9	7.7	7.5	6.2
EV / Net Sales	0.9	1.0	0.8	0.7
Market Cap / Sales	0.5	0.4	0.4	0.4
Price to Book Value	0.6	0.6	0.5	0.5
Solvency Ratios				
Debt/EBITDA	3.7	4.6	4.1	3.1
Debt / Equity	0.6	0.8	0.6	0.5
Current Ratio	3.6	4.2	3.8	3.6
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)	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Balrampur Chini (BALCHI)	131	170	Buy	3,152	25.2	20.5	17.7	5.2	6.4	7.4	6.6	5.6	6.3	1.4	1.2	1.1	16.3	17.0	14.3
Dhampur Sugar (DHASUG)	133	155	Buy	857	37.8	32.5	37.4	3.5	4.1	3.6	5.4	6.7	5.2	0.7	0.6	0.5	13.7	10.4	12.9
Dwarikesh sugar (DWASUG)	25	38	Buy	471	5.1	3.9	7.0	5.0	6.5	3.6	8.3	8.1	4.3	1.0	1.0	0.8	11.8	9.0	16.8
Triveni Engineering (TRIENG)	57	82	Buy	1,339	8.4	13.5	15.4	6.8	4.2	3.7	9.3	4.8	4.4	1.2	1.0	0.8	11.1	17.6	18.1
Dalmia Bharat Sugar (DALSUG)	112	150	Buy	907	21.6	23.9	25.0	5.2	4.7	4.5	6.9	7.7	7.5	0.6	0.6	0.5	9.8	11.8	11.1

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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