

Dwarikesh Sugar Industries Limited (DSIL), "BUY", Target price: Rs. 150, Upside: 26.26%

We had recommended "Dwarikesh Sugar Industries Limited", on November 04, 2021 as Diwali pick in our Diwali - Samvat 2078 report at a price of Rs. 74.8 with a target price of Rs. 100. The stock had surpassed our target and recently made a high of Rs. 128.80.

We continue our coverage on the Company post its Q3FY22 results and raise our price target to Rs. 150 per share. We hereby present the updated research report post its Q3FY22 result.

CMP: Rs. 118.80 |Book value: Rs. 33 per share |FV: Re. 1|Market Cap: Rs. 2,237 Crore|EPS (TTM): Rs. 7.64| P/E (TTM):16x |9M FY22 EPS: Rs. 5.08 per share |FY21 RoE: 15.8|FY21 RoCE: 14.4|52 Week High/Low: Rs. 128.80/Rs. 30|Bloomberg code: DSIL:IN

Impressive background

The Company was founded in 1993 by Shri Gautam Morarka with the aim to create one of the most respected sugar companies in India. Over the years, Dwarikesh Sugar has emerged as one of the most sustainable multi-product sugar companies in India. The Company is currently **one of the most efficient integrated sugar companies in Uttar Pradesh**.

The company has three fully automated and highly efficient sugar mills, located in Uttar Pradesh's sugarcane-rich belt of Bijnor and Bareilly districts. The Company has access to large, clearly defined cane-producing areas in the region. All the three plants are well connected with major sugar consuming markets of the country, the Bareilly plant being located on the National Highway itself. The company's combined production capacity is 21,500 tons of sugarcane per day. Modern and technologically advanced units help the company to harness sugar by-products and produce ethanol/ industrial alcohol and bagasse-based power as growth enablers.

High recovery, plant efficiencies, cane development initiatives and ethical & transparent conduct of business are the key USPs of the company. The company's collaborative approach has helped farmers to improve their yield and maximize their returns. Focused R&D initiatives have enabled the company to ensure streamlined and quality supply of sugarcane, enabling high recovery and production levels.

The Company is engaged in the manufacture of sugar, ethanol (and related products) and power.

Manufacturing capacity

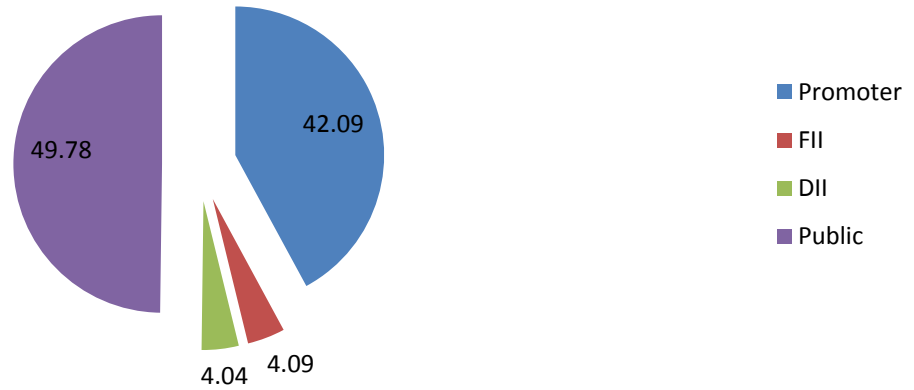
Particulars	1995	2002	2004	2005	2007	2019	2020	2021
Sugar (TCD)	2500	6500	6500	14000	21500	21500	21500	21500
Power (MW)	6	6	17	26	86	91	91	91
Distillery (LPD)	-	-	-	30000	30000	100000	130000	163000

Source: Company

Big ethanol opportunity

- The new distillery will be commissioned in June 2022, which would increase the annual capacity closer to 11 crore litre from 3.2 crore litre in FY21.

Shareholding pattern as on Dec. 2021



Source: Company

Key Milestone

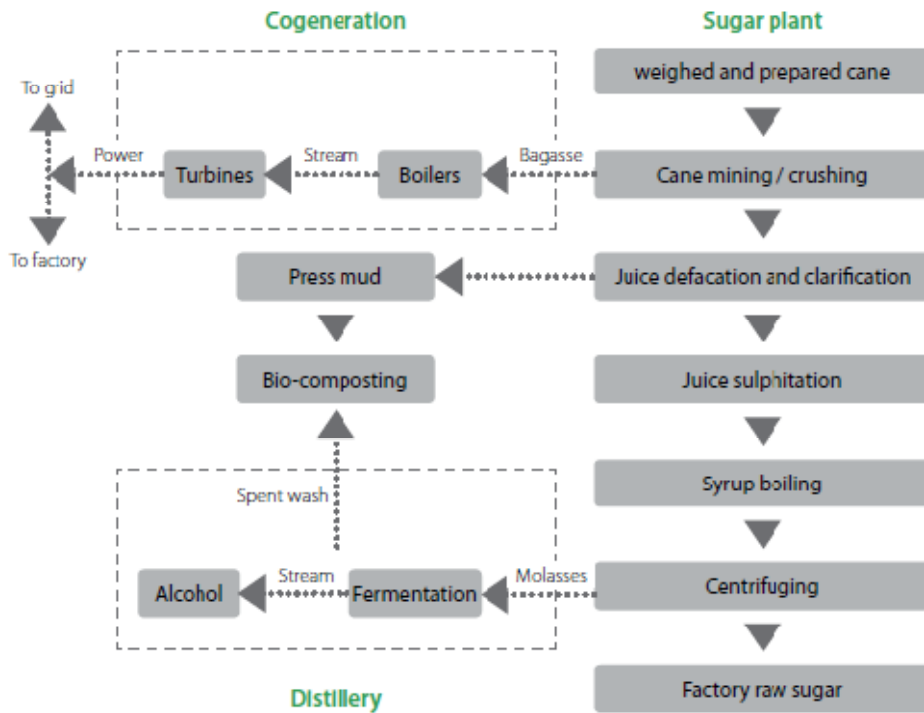
Year	Particulars
1993	Incorporation of the Company
1995	Commissioned Dwarikesh Nagar (DN) plant with crushing capacity of 2,500 TCD and cogeneration capacity of 6 MW
2002	DN Crushing capacity reached 6,500 TCD; DN plant commenced supplying surplus power to the State Grid
2004	Raised Rs. 32.5 crores through IPO, which was oversubscribed 23x; DN cogeneration capacity reached 17MW (commenced supplying surplus c. 8MW to the State Grid)
2005	Set up DN Distillery with 30,000 LPD capacity; Commissioned Dwarikesh Puram (DP) plant with crushing capacity of 7,500TCD and cogeneration capacity of 9MW; Raised Rs. 540 crores through GDR
2007	Commissioned Dwarikesh Dham (DD) plant with crushing capacity of 7,500TCD and cogeneration capacity of 36MW (surplus c. 24MW); Increased DP cogeneration capacity to 33MW (surplus c. 24MW)
2008	Commencement of surplus power supply to state grid at DP and DD units
2011	NLDC registration (RECs) to all three cogeneration plants
2016	Debottlenecking of DN Distillery by commissioning Biomethanated Spent Wash Plant. Raised Rs. 59.4 crore through QIP
2017	Right –sizing of DN plant resulting in optimised capacity utilization
2019	100 KLPD Distillery capacity expansion project successfully completed and operations started in Dec 2019
2020	Distillery capacity further expanded from 100 KLPD to 130 KLPD

Source: Company



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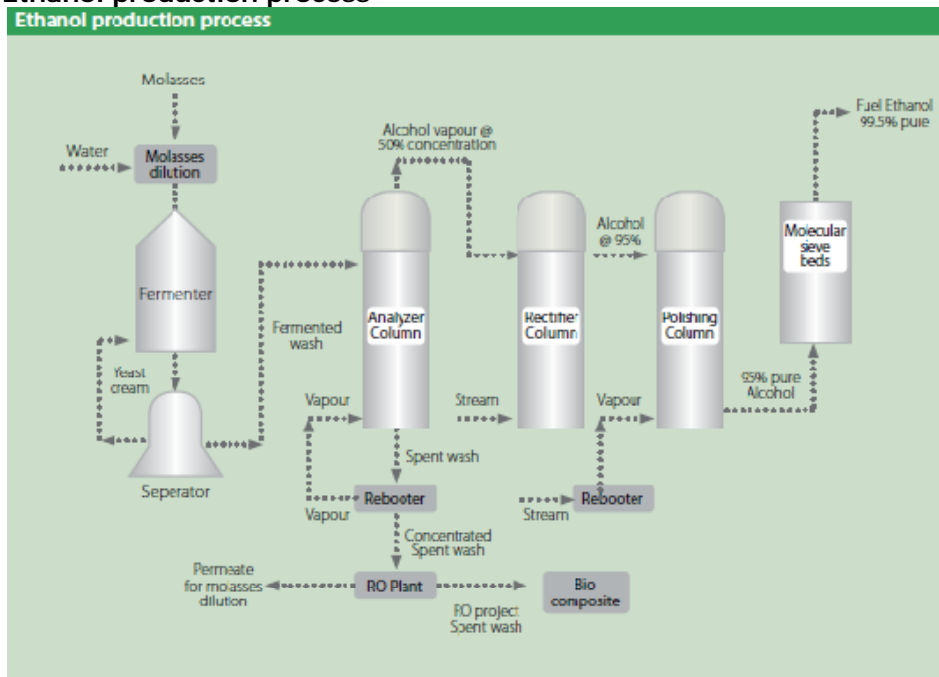
Sugar process flowchart



(Source: ISMA)

Source: Company

Ethanol production process



Source: Company

Decent performance in Q3FY22 result

Particulars	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)
Total Operating Income	601	506	19.0	381	57.8
Raw material cost	478	374	27.9	309	54.7
Employee cost	31	20	51.1	25	22.9
Other operating expenses	37.2	36.6	1.8	23.9	55.9
EBITDA	55.1	74.7	(26.3)	23.2	137.8
EBITDA margin (%)	9.2	14.8	-563 bps	6.1	308 bps
Depreciation	11.0	10.6	4.1	10.3	7.3
Interest	3.9	8.6	(54.7)	9.6	(54.7)
Other income	1.0	0.6	52.8	4.1	(76.0)
PBT	41.1	56.2	(26.8)	7.3	463.8
PAT	28.9	39.6	(27.1)	7.5	285.6

Source: Company

Q3FY22 result analysis

- According to the management, it is very difficult in a sugar industry to view the segment results on a standalone basis and number two also on quarter-on-quarter basis. Q3 of this year is comparable with the Q3 of last year but not entirely.
- The Company witnessed a topline growth of 19.0 percent on QoQ basis and strong growth of 57.80 percent on YoY basis to Rs. 601 Crore led by higher distillery volumes and increase in sugar prices. The rise in distillery volumes was owing to higher demand from OMCs. In Q3FY22, distillery segment witnessed strong sales growth of 157 percent led by jump in ethanol volumes and higher proportion of B-heavy ethanol sales.
- In Q3FY22, the Company has sold about 14.17 lakhs quintals of sugar which includes 2.50 lakhs quintals of export sugar which is as compared to 10.38 lakhs quintals of sugar that it sold in the corresponding quarter last year. In the corresponding quarter last year it did not have any export sales, all the sugar that we sold was sold in the domestic market. Sugar stock as on 31st December 2021 was 11.07 lakh quintals as compared to stock of 19.49 lakh quintal as on 31st December 2020. (nearly 8 lakhs quintals of sugar stock has come down).
- Sugar sold during FY2021 nine months period is 35.88 lakhs quintals of sugar which includes 2.50 lakhs quintals of sugar that we exported. So this number again compares well with what it had done in the nine months period in the previous financial year.
- The Company has already exported 25,000 metric tonnes of sugar. According to the management, signing of further export contracts will depend up on how the international price of sugar is, which presently is subdued. At this price, the Company has no intention of signing any export contract. The Company might sign if the prices gets significantly better.
- In the distillery segment, Industrial Alcohol sold during Q3FY22 and 9MFY22 is 11,326 KL and 39,202 KL respectively as compared to 5,553 KL and 18,899 KL industrial alcohol sold during corresponding periods last year.



- g) The Company has sold about 3.92 Crores liters of ethanol in the nine months period, which is as compared to 1.89 Crores liters of ethanol that it had sold in the previous year nine months.
- h) While in season 2020-21 nearly 2 million tonnes of sugar was sacrificed in favor of ethanol this season the sacrifice is expected to be about 3.4 million tonnes of sugar.
- i) EBITDA grew sharply by 137.8 percent on Yoy basis led by good realisation in sugar prices and in the distillery segment. Domestic sugar realisation improved to Rs. 35.4 per kg in Q3FY22 (Rs. 33.8 per kg in Q2FY22) from Rs. 31.8 kg in Q3FY21. Distillery realisation has improved from Rs. 46.5 per litre in Q3FY21 to Rs. 58.6 per litre in Q3FY22 (Rs. 57.6 in Q2FY22). However, on QoQ basis, EBITDA has declined by 26.3 percent to Rs. 55.1 Crore in Q3FY22 led by fall in volume growth in the distillery segment.
- j) In Q2FY22, the ethanol it made was from the molasses that the Company had generated in the last season and in Q3 the ethanol it sold is partly from molasses generated in the last season partly what it had generated in the current ongoing season. There has been a revision in the transfer price of B-heavy molasses based on the base price of C-heavy molasses which is prevailing in the market. In case of Q2FY22, the ethanol produced was by using B heavy molasses generated during season 2020-21 where the transfer price of B-heavy molasses was Rs.670 a quintal, which has now been revised to Rs.1030 a quintal during season 2021-22. As result, margin seems to be less in the sale of ethanol in percentage terms.
- k) Net Profit was up by 3.85x on YoY basis to Rs. 28.9 Crore led by reduction in interest cost and good growth in EBITDA. Interest cost has declined on QoQ basis to Rs. 3.9 Crore from Rs. 8.6 as the Company's Debt has reduced significantly led by liquidation of inventory. However, on QoQ basis PAT declined by 27.1 percent due to fall in EBITDA.
- l) The Company's term loan profile is lean and trim, all the loans that it carries in its books are at subsidized rate of interest and its rating continues to be A+ although ICRA has recently revised its outlook from stable to positive which means in due course it should get the much deserved upgrade in its rating. Short-term rating for the commercial papers program is A1+.
- m) On 31st December, 2021, the company had outstanding long term loans of Rs.190.74 crore including SEFASU 2018 loan of Rs.67.24 crore (soft loan which is given by the State Government of Uttar Pradesh which carries a interest of 5 percent per annum) . Balance amount of Rs.123.50 crore is the loan availed for the distillery projects including Rs.30 Crore loan for ongoing distillery project at DD unit (under disbursal). All the outstanding long-term loans are at concessional rate of interest. The Company has been able to moderate its working capital debt because the inventory levels have come down which is reflected in the interest cost that it has incurred during the quarter.
- n) Long term rating accorded by ICRA is reaffirmed at A+. However, the rating outlook is revised to 'positive' from 'stable'. Short-term rating accorded to the Company by ICRA for CP program of Rs.300 Crore is also reaffirmed at A1+.
- o) In 9MFY22, the company reported total income of Rs. 1,501.74 crores, PBT of Rs. 132.93 crore and PAT of Rs. 95.60 crore registering 21 percent growth in total income, 135 percent growth in PBT and 121 percent growth in PAT as compared to corresponding period last year.

Segmental performance over the years (Rs. in Crore)

Particulars	FY17	FY18	FY19	FY20	FY21
Sugar					
Total production (in lakh quintals)	30.34	38.33	40.68	40.35	45.93
Sugar recovery (%)	11.64	11.84	12.28	12.30	11.57
Revenue	1,183.33	1,430.24	1,064.28	1,407.33	1,873.92
Contribution to total revenues (%)	83.74	84.74	78.98	81.94	79.89
EBITDA	182.89	46.3	30.70	35.71	45.91
Co-generation					
Power Generated(in lakh quintals)	2,510	3,056	3,165	2,742.81	3,166.36
Average realisation(Rs./ unit)	5.01	4.80	5.01	2.93	3.05
Revenue	196.25	232.54	246.89	254.21	310.81
Contribution to total revenues (%)	13.89	13.78	18.32	14.80	13.25
EBITDA	86.82	100	107.62	81.56	104.19
Distillery					
Industrial alcohol sale (in lakh liters)	82.10	64.06	90.17	115.62	317.32
Rate (Rs. per litre)	40.79	38.88	40.28	48.43	50.17
Revenue	33.50	24.92	36.32	56.01	160.67
Contribution to total revenues (%)	2.37	1.48	2.70	3.26	6.85
EBITDA	11.09	13.67	26.84	24.20	58.25

Source: Company

Strong outlook for the future

- According to the management, in a couple of years from now industry should witness a scenario where production will be more or less equal to the consumption in sugar and if at all there is maybe a small surplus of a million or 2 million tonnes it will be easy for the country to push it out in the export market.
- With regards to the ethanol season year 2021-22, the management expects to supply about 5.4 Crores liters of ethanol from its Dwarikesh Nagar plant and the new plant which is going to come up and which will be operational in June 2022 (schedule of execution is perfectly on time) and the Company is expected to commission the plant in June 2022. The Company in its Dwarikesh Dham sugar unit is producing B-heavy molasses and storing. Once the distillery plant is commissioned, the Company should be using B-heavy molasses there and producing ethanol from there. Even, if we were to assume that we will get clear three months of distillery operations there, the Company should be able to do about a Crore and 50 lakhs liters minimum from there so together, the Company should be able to do about 7 Crores liters in ESY 2021-22.
- Once both the plants are operational, the Company's model is going to be that in season it will be using juice for making ethanol and in off season it would be using the B-heavy molasses, which it would generate during the season. The same will be used during the offseason. Once both the plants are operational, the Company expects to produce about 11 Crores liters of ethanol every year by sacrificing nearly 25 percent to 30 percent of sugar production.
- The Company is aggressive and is increasing the distillery capacity by 3x (from 3.2 crore litre in FY21 to 11 crore litre in FY24). As a result, Strong revenue growth is expected from the distillery segment with



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around 3x increase in ethanol volumes and decent realisation growth owing to good realisation from B - Heavy and sugarcane juice ethanol.

- e) Diversion of sugarcane for ethanol production has led to improved margins and higher domestic sugar prices in the future will boost profitability and reduce sugar inventory.
- f) Going ahead, the management expects growth being derived from investments in improved technologies in its older plants, expansion in the distillery capacity, extension into refined sugar and graduation into retail consumer packaging. As the quantum of capital expenditure declines, the management expects to strengthen its working capital management, increase margins and gradually turn cash-flow positive around a right-sized sugar inventory.

Key concern

Sugar Industry is highly regulated and its fortune depends on the Government policies and sugarcane pricing. The dependence of sugar industry on rainfall, cultivated area and transportation costs affects sugar prices. However, the Company is growing the non-sugar side of its business to enhance its counter-cyclical stability.

Recommendation

At CMP of Rs. 118.80, the stock is valued at a P/E of 16x. We recommend a **"Buy"** with a target price of **Rs. 150 (16x at estimated FY23 EPS of Rs. 9.38)** for investors with a horizon for 9-12 months.

One year price movement chart



Source: Trading view



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Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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