



## KEY HIGHLIGHTS

### 1. RESULTS OVERVIEW:

- Revenue for the company increased by 43.9% to Rs 671.8 crore (net of excise), mostly due to increases in sugar sales of 44.7% and distillery sales of 68.2%. During the quarter, power revenue stayed the same.
- In Q4Y23, the company crushed 18.85 lakh tonne of sugarcane, of which 4.65 lakh tonne (24.6%) was diverted to the production of ethanol from sugarcane juice.
- The company's profit was boosted by strong sales of ethanol and chemicals.
- Revenue from ethanol business is 596 crores higher by 40% as compared to last year.

### 2. MANAGEMENT COMMENTARY:

- With the opening of their new distillery, the company anticipates an increase in margins next year.
- The reduction in operating margin for the full year is mainly due to transfer pricing.
- Although the corporation intends to enhance crushing levels for the years 23 and 24, actual results will rely on planting and monsoon conditions.
- For FY23–24, company intends to prioritize efficiency improvements above significant expansions. There is enough capacity at the company and no need for significant additions over the upcoming year.

### 3. BUSINESS OVERVIEW:

- Dhampur Sugar Mills is one of the leading integrated sugarcane processing companies in India. With a sugar crushing capacity of 23,500 tonnes crushed per day, a distillery capacity of 350 kiloliters per day (KLD), and 121 MW of cogeneration capacity, the company is one of the integrated sugar companies in UP. Additionally, it can produce 140 tonnes of ethyl acetate daily.

### 4. MANAGEMENT GUIDANCE

- Within the following month, the company will put its 100 KLD grain-based distillery online. At full capacity after expansion, it would be able to produce 15 Crore liters of ethanol annually.
- The company would be diverting 25% of its sugarcane towards sugarcane juice route to produce ethanol.
- The company had no exports in Q4 and will focus on pure domestic sales.
- Prices for sugar are expected to remain stable with a slight fluctuation of 50 paise plus-minus.
- Given that Dhampur Sugar will need fuel for a new ethanol distillery, the company does not intend to generate or sell any bagasse before August 2023.

### 5. SUGAR INDUSTRY

- The sugar sector is about to undergo a massive upheaval and has emerged as a powerful clean energy driver, accelerating India's transition to renewable energy sources. The sugar industry in India has undergone structural change as a result of the ethanol and petrol blend, which has also lessened industry cyclicality. India achieved 10% ethanol blending last year (10.17% in 2021-2022) five months ahead of schedule, and it's anticipated that it will reach 12% blending in 2022-23. Beginning on April 1, 2023, all passenger vehicles produced in India must comply with the 20% (E20) standard, which will facilitate the transition to a 20% base level ethanol blend by 2025.

### 6. VALUATION AND OUTLOOK:

- In order to generate ethanol, the corporation would transfer 25% of its sugarcane crop to the production of sugarcane juice, which would enhance free cash flow, reduce debt, and improve margin in the ensuing years.
- We value the company at 10.5x FY24 EPS to arrive at the target of 295.

## RECOMMENDATION – BUY

CMP - 248

TARGET - 295 (19%)

| Industry                   | Sugar      |
|----------------------------|------------|
| NSE CODE                   | DHAMPURSUG |
| BSE CODE                   | 500119     |
| Market Cap (₹ Cr)          | 1648.40    |
| Shares Outstanding (in Cr) | 6.64       |
| 52 wk High/Low (₹)         | 285 / 196  |
| P/E                        | 10.47      |
| P/BV                       | 1.58       |
| Face Value (₹)             | 10.00      |
| Book Value (₹)             | 157.04     |
| EPS (FY23) (₹)             | 23.72      |
| Dividend Yield (%)         | 2.41       |

## SHAREHOLDING PATTERN

|                   | Mar'23 | Dec'22 | Sep'22 |
|-------------------|--------|--------|--------|
| Promoters         | 49.08  | 49.08  | 49.08  |
| Mutual Funds      | 0.00   | 0.00   | 0.00   |
| FII/FPI           | 4.77   | 5.09   | 5.57   |
| Retail & Others   | 45.65  | 45.31  | 44.86  |
| Promoter Pledging | 0.00   | 0.00   | 0.00   |

## FINANCIAL SNAPSHOT (₹ Cr)

| Y/E March            | 2022A   | 2023A | 2024E |
|----------------------|---------|-------|-------|
| <b>Core</b>          |         |       |       |
| Net Sales            | 1904.05 | 2460  | 2595  |
| Net Sales Growth (%) | -11.77  | 29.2  | 5.5   |
| EBITDA               | 291.39  | 303   | 335   |
| EBITDA margin (%)    | 14.00   | 12.0  | 12.9  |
| Adj. PAT             | 144.04  | 158   | 187   |
| Adj. EPS             | 21.70   | 23.72 | 28.16 |
| Adj. EPS Growth(%)   | -37.15  | 9.3   | 18.72 |
| <b>Ratios</b>        |         |       |       |
| ROE (%)              | 11.78   | 15.2  | 16.9  |
| ROCE (%)             | 11.31   | 14.5  | 16.2  |
| <b>Valuation</b>     |         |       |       |
| P/E (x)              | 24.65   | 10.5  | 8.8   |
| P/BV (x)             | 4.01    | 1.58  | 1.36  |

## Historical & Industrial Val Ratios

|                |       |
|----------------|-------|
| Historical P/E | 10.47 |
| Industry P/E   | 9.84  |
| Historical P/B | 1.58  |
| Industry P/B   | 2.00  |

| Important Metric (%)               | Q4FY23 | Q3FY22 | Q1FY22 | Q4FY22 | Q3FY22 | FY-23 | FY-22 |
|------------------------------------|--------|--------|--------|--------|--------|-------|-------|
| Cane Crushed (Lakh tons)           | 18.85  | 12.98  | 7.18   | 17.51  | 11.92  | 39.01 | 35.83 |
| Cane diverted to Syrup (Lakh tons) | 4.65   | 2.41   | 1.76   | 1.04   | -      | 8.09  | 1.04  |
| Gross Recovery %                   | 12.38  | 11.34  | 12.65  | 12.5   | 11.2   | 12.04 | 12.16 |
| Net Recovery %                     | 7.80   | 7.89   | 7.93   | 10.08  | 10.25  | 7.84  | 10.37 |
| Production (Lakh tons)             | 1.47   | 1.02   | 0.57   | 1.76   | 1.22   | 3.06  | 3.71  |

**QUARTERLY PERFORMANCE (STANDALONE)**

(₹ Cr)

| Y/E March      | FY22   |        |        |        | FY23  |        |        |        | FY24E* |
|----------------|--------|--------|--------|--------|-------|--------|--------|--------|--------|
|                | Q1     | Q2     | Q3     | Q4     | Q1    | Q2     | Q3     | Q4     |        |
| Net sales      | 544    | 455    | 630    | 532    | 829   | 644    | 642    | 759    | 2595   |
| YoY change (%) | -50.47 | -52.37 | -43.19 | -17.18 | 52.32 | 41.50  | 1.91   | 42.62  | 5.5    |
| Expenditure    | 475    | 402    | 530    | 464    | 747   | 613    | 556    | 655    | 2260   |
| EBITDA         | 70     | 53     | 100    | 68     | 82    | 31     | 86     | 104    | 335    |
| YoY growth (%) | -38.89 | -25.81 | -8.75  | -27.15 | 17.57 | -42.13 | -14.20 | 53.77  | 10.5   |
| Depreciation   | 13     | 10     | 13     | 14     | 12    | 10     | 14     | 16     | 55     |
| Interest       | 16     | 12     | 9      | 14     | 17    | 11     | 5      | 11     | 48     |
| Other income   | 1      | 2      | 0      | 7      | 5     | 7      | 0      | 4      | 18     |
| PBT            | 42     | 33     | 79     | 47     | 57    | 17     | 67     | 82     | 250    |
| Tax            | 11     | 8      | 21     | 17     | 18    | 5      | 21     | 21     | 62.5   |
| Adjusted PAT   | 31     | 25     | 58     | 30     | 39    | 12     | 46     | 61     | 187    |
| YoY change (%) | -42.57 | -10.09 | 6.47   | -42.42 | 26.25 | -53.83 | -20.08 | 104.27 | 18.3   |

Source: Company, Hem Securities Research.

**Insights into the assumptions:**

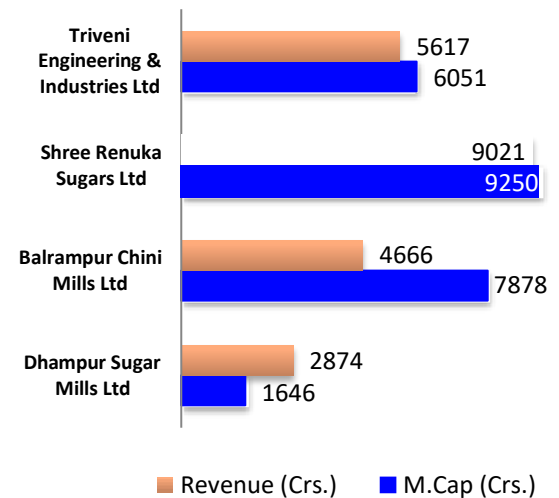
- 1> Ethanol blending with petrol in India has structurally transformed the sugar sector
- 2> Improved profitability and reduced working capital will ensure superior cash flows
- 3> Global requirement for ethanol rising
- 4> OMCs & ethanol producers to gain by higher production and blending
- 5> Supports over 50 million farmers and their families and finely fits into the Aatma Nirbhar Bharat mission of the Government.



## INDUSTRY OVERVIEW

- Although it consistently accounts for more than half of the sugarcane output in Brazil, ethanol production uses about 15% of the global crop. India is quickly catching up in its effort to use excess sugarcane to produce ethanol, which aids in a concurrent reduction in sugar output to achieve sustainable demand-supply parity.
- The coexistence of the commercial, cooperative, and state sectors in the sugar business in India is its defining feature. It naturally benefits more than 50 million farmers and their families and fits perfectly into the government's Aatma Nirbhar Bharat objective. Being rural-focused, it is a major force behind and facilitator of wealth generation at the village level. India's second-largest agro-based sector is sugar, behind textiles.
- The government's mandate for a 20% ethanol blend in fuel is expected to create a 15% CAGR increase in ethanol demand during the period FY22–30E. Additionally, a higher cane diversion rate to ethanol will address the issue of excess sugar inventory and lower business instability. Superior cash flows will be ensured by increased profitability and decreased working capital, which, coupled with an increase in RoE/RoCE, will result in a re-rating of the industry.
- The Indian sugar production is expected to decline marginally from initial estimates of 36.5mn tonne to c. 34-35.5mn tonne mainly due to yield impact in Maharashtra and Karnataka. The sugar production in UP is expected to remain stable at c. 10.5mn tonne. The sugar consumption is expected at 27.5mn tonne in 2022-23.

## KEY PLAYERS



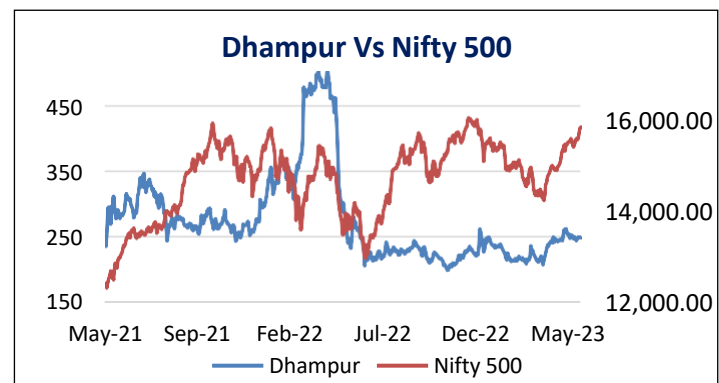
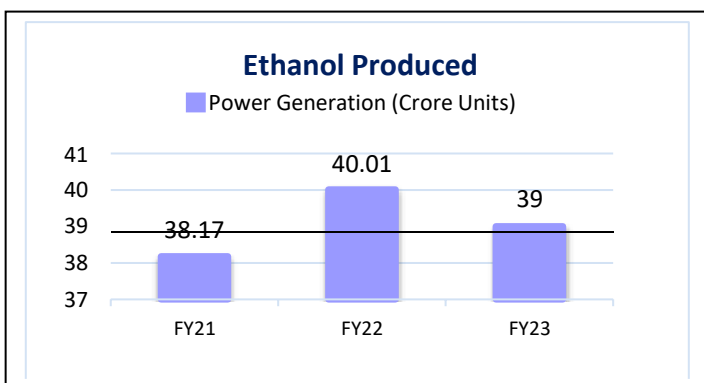
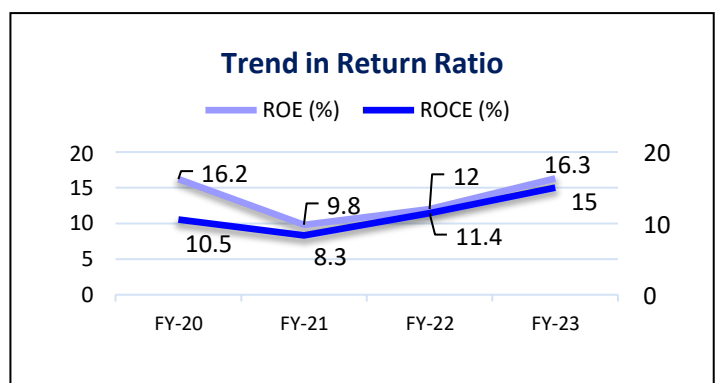
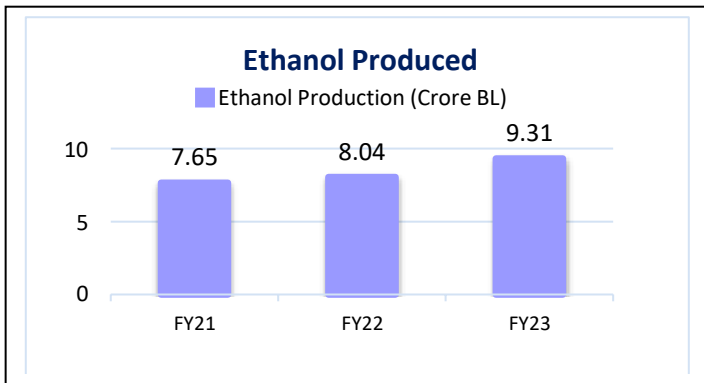
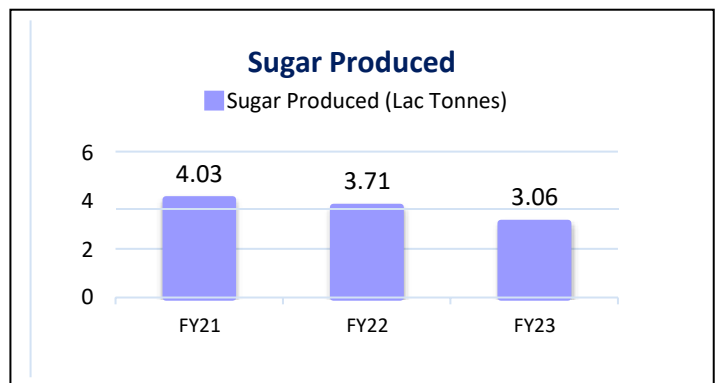
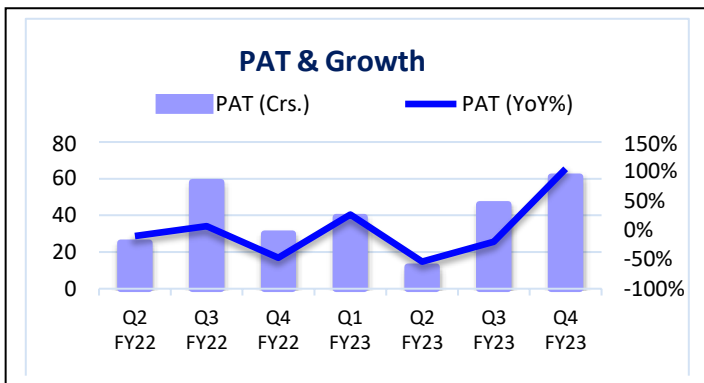
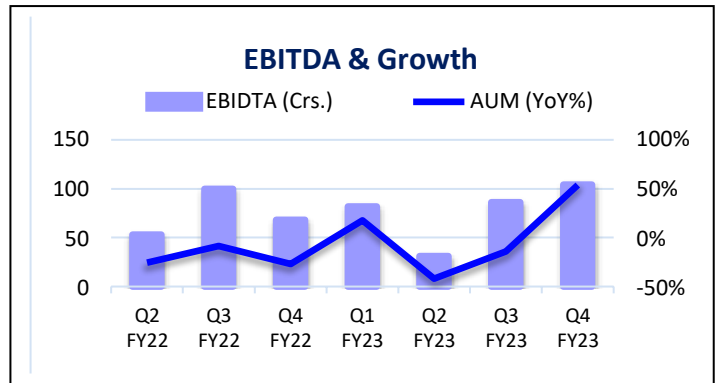
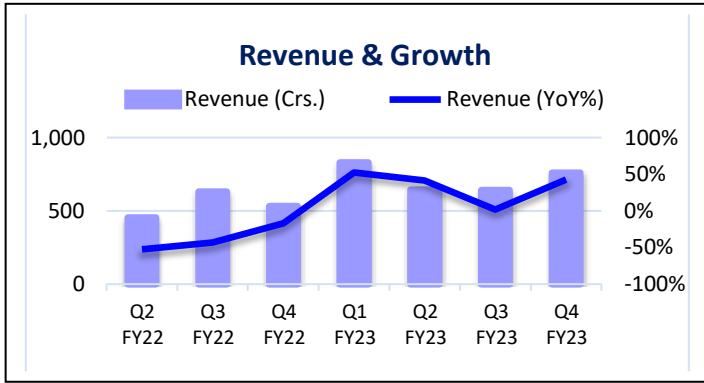
## PEER PERFORMANCE

(₹ Cr)

| Particulars      | Dhampur Sugar Mills Ltd. | Balrampur Chini Mills Ltd. | Shree Renuka Sugars Ltd. | Triveni Engineering & Industries Ltd. |
|------------------|--------------------------|----------------------------|--------------------------|---------------------------------------|
| Market Cap       | 1646                     | 7878                       | 9250                     | 6051                                  |
| Net Sales        | 2874                     | 4666                       | 9021                     | 5617                                  |
| EBITDA           | 303                      | 512                        | 564                      | 616                                   |
| PAT              | 158                      | 284                        | -197                     | 1792                                  |
| EPS(Rs)          | 23.72                    | 14.07                      | -0.93                    | 81.86                                 |
| EBITDA MARGIN %  | 12                       | 11                         | 6                        | 11                                    |
| PAT MARGIN %     | 9.5                      | 6                          | -2.1                     | 31                                    |
| ROCE %           | 15                       | 10.4                       | 8.84                     | 17.5                                  |
| ROE %            | 16.3                     | 10                         | -                        | 23.2                                  |
| P/E              | 10.5                     | 27.7                       | -                        | 11.4                                  |
| P/B              | 1.59                     | 2.74                       | -                        | 2.29                                  |
| EV/EBITDA        | 7.32                     | 16.6                       | 22.5                     | 9.67                                  |
| Dividend Yield % | 2.43                     | 0.64                       | 0                        | 1.16                                  |
| MCap/ Sales      | 0.57                     | 1.68                       | 1.025                    | 1.07                                  |

Source: Company, Hem Securities Research.

**STORY IN CHARTS**



## INVESTMENT RATIONALE:

- Net sales increased by 43.9%, with ethanol sales increasing by 68% and sugar sales increasing by 44.7%. A large portion of the increased profit during the quarter can be attributed to ethanol and chemicals.
- In India, ethanol blending with fuel has structurally altered the sugar business and reduced the industry's cyclicality. India achieved 10% ethanol blending 5 months ahead of schedule last year (10.17% in 2021-2022), and 12% blending is planned in 2022-23. From April 1, 2023, all passenger vehicles made in India will be 20% (E20) compliant, assisting in the transition to 20% base level ethanol blending by 2025.
- The government is also working hard to introduce flex-fuel vehicles that can run on up to 85% ethanol, with plans to deploy two-wheeler and four-wheeler flex-fuel vehicles in 2024 and 2025, respectively. To compensate for the higher production costs, the government will provide PLI (Production Linked Incentives) incentives for flex-vehicle manufacture.
- The government has assured to purchase all the ethanol that the sector will produce in order to encourage green fuel, reduce the need for imported petrol and foster energy security. Blending of ethanol was over 10.17% in 2022, and it's anticipated to be around 12% in 2023. OMCs have so far allotted 4 billion liters of ethanol for supply through tender for the years 2022–2023, with the majority of that amount going towards B–Heavy, Juice, and damaged food grains.
- The domestic sugar prices have remained stable with sufficient availability and may react to allocation of additional export quota going forward.
- Due to its many potential byproducts, sugar cane supports the circular economy. Sugar firms sell excess power to state energy boards in order to make additional revenue, but as most states have begun to drop their power purchase costs, cogeneration revenue has decreased.

## RISK FACTORS:

- The Like other sugar mills in Uttar Pradesh, the Company's profitability is heavily reliant on the State Advised Price, or sugarcane price policy, of the state. Any disproportionate increase in cane prices could have a negative effect on the business' profitability.
- Like many other agricultural products, sugarcane is climatically dependent and prone to illnesses and pests that could lower yields and, in turn, recovery rates.
- Majority Companies depends heavily on Co-0238 cane variety The Company and the industry need to reduce their reliance on Co- 0238. In case of failure of the variety for any reason will be a challenge.

## COMPANY RECAP

- Dhampur Sugar Mills Limited is an India-based integrated sugarcane processing company engaged in the manufacturing and selling of sugar, power and chemicals. The Company's segments include Sugar, Power, Chemicals / Ethanol and Others. The Sugar segment manufacture and sale of sugar and its byproducts. The Power segment consists of co-generation and sale of power. The Chemicals / Ethanol segment manufacture and sale of country liquor, ethanol, ethyl acetate, hand sanitizers and other allied products. The others segment consists of sale of petrol and agricultural products. The Company's products portfolio includes renewable power, fuel ethanol, alcohol, extra neutral alcohol, alcohol-based chemicals and bio fertilizers.
- Since 1933, have retained position as one of the leading sugar manufacturers in the country. Sugar manufacturing units and the farmers associated with it have always shared a symbiotic relationship to ensure high yield and high sucrose content sugarcane. Leveraging our continuous and pioneering efforts to increase sugarcane potential has helped us at Dhampur Group grow at a larger scale.
- Dhampur has a rich legacy when it comes to creating the finest quality sugar products in India. Mishti is made of fresh-from-farm sugarcane and remains untouched by hand, that's why each packet of Mishti brings only the most superior quality sugar to your everyday cooking.
- Have been investing judiciously in ethanol fuel either through a timely sacrifice of sugar productions whenever the realizations were low; or through an expansion of 130 KLPD including 100 KLPD on grain that was commissioned at the start of the 2021-22 sugar season.
- To increase the yield ratio of steam from bagasse, dhampur sugar was among the first companies in India to install a 105kg/square CMS boiler and 20 MW turbine. Ability to harness the full potential of sugarcane in the country enabled us to expand our portfolio beyond sugar to include renewable energy

**ANNUAL PERFORMANCE**

| Financials & Valuations |          |          |          |          |       |       |
|-------------------------|----------|----------|----------|----------|-------|-------|
| Income Statement        | (₹ Cr)   |          |          |          |       |       |
|                         | 2019     | 2020     | 2021     | 2022     | 2023  | 2024E |
| Net Sales               | 2,954.06 | 3,497.59 | 2,158.07 | 1,904.05 | 2460  | 2595  |
| Total Expenditure       | 2,495.14 | 3,148.17 | 1,881.86 | 1,612.66 | 2156  | 2260  |
| EBITDA                  | 458.92   | 349.42   | 276.21   | 291.39   | 303   | 335   |
| EBITA Growth (%)        | 27.82    | -18.10   | -27.72   | 3.83     | 3.7   | 10.5  |
| EBITA Margin (%)        | 16.68    | 11.40    | 13.06    | 14.00    | 12.00 | 12.9  |
| Interest Expenses       | 103.05   | 120.18   | 41.86    | 50.93    | 44    | 48    |
| Other Income            | 33.70    | 54.06    | 15.42    | 11.41    | 15    | 18    |
| Exceptional Items       | 0.00     | 0.00     | 0.00     | 0.00     | 0.00  | 0.00  |
| Net Profit              | 250.92   | 215.63   | 143.35   | 144.03   | 158   | 187   |
| PAT Growth (%)          | 65.89    | -14.06   | -33.52   | 0.47     | 9.7   | 18.3  |
| PAT Margin (%)          | 8.49     | 6.09     | 6.42     | 6.66     | 5.5   | 7.2   |
| EPS                     | 37.82    | 32.62    | 34.53    | 21.70    | 23.72 | 28.16 |
| EPS Growth (%)          | 65.48    | -13.75   | 5.85     | -37.15   | 9.3   | 18.7  |

Source: Company, Hem Securities Research.

| Balance Sheet                         |              |              |              |              |              |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Y/E March                             | (₹ Cr)       |              |              |              |              |
|                                       | 2019         | 2020         | 2021         | 2022         | 2023         |
| Share Capital                         | 66           | 66           | 66           | 66           | 66           |
| Reserves                              | 1,158        | 1,295        | 1,494        | 819          | 976          |
| Borrowings                            | 1,824        | 1,752        | 1,158        | 886          | 744          |
| Other Liabilities                     | 877          | 755          | 753          | 394          | 335          |
| <b>Total Liabilities &amp; Equity</b> | <b>3,927</b> | <b>3,869</b> | <b>3,471</b> | <b>2,165</b> | <b>2,122</b> |
| Fixed Assets                          | 1,597        | 1,638        | 1,614        | 999          | 1,045        |
| CWIP                                  | 34           | 7            | 21           | 29           | 103          |
| Investments                           | 12           | 2            | 3            | 5            | 2            |
| Other Assets                          | 2,284        | 2,222        | 1,833        | 1,132        | 971          |
| <b>Total Assets</b>                   | <b>3,927</b> | <b>3,869</b> | <b>3,471</b> | <b>2,165</b> | <b>2,122</b> |

Source: Company, Hem Securities Research.

| <b>Ratios</b>                             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| <b>Y/E March</b> (Basic (INR))            | <b>2020</b> | <b>2021</b> | <b>2022</b> | <b>2023</b> |
| <b>Operational &amp; Financial Ratios</b> |             |             |             |             |
| Earnings Per Share (Rs)                   | 31.84       | 21.61       | 22.14       | 23.72       |
| CEPS(Rs)                                  | 43.20       | 29.31       | 29.71       | 57.68       |
| Book Value (Rs)                           | 207.14      | 235.44      | 133.85      | 157         |
| <b>Performance Ratios</b>                 |             |             |             |             |
| ROA (%)                                   | 5.45        | 3.77        | 4.83        | 7.3         |
| ROE (%)                                   | 16.15       | 9.77        | 11.99       | 15.2        |
| ROCE (%)                                  | 10.46       | 8.28        | 11.42       | 14.5        |
| Asset Turnover(x)                         | 0.88        | 0.59        | 0.72        | 1.34        |
| Inventory Turnover(x)                     | 2.08        | 1.54        | 2.08        | 3.7         |
| Debtors Turnover(x)                       | 10.88       | 7.24        | 8.67        | 12.5        |
| Fixed Asset Turnover (x)                  | 1.32        | 0.84        | 1.02        | 2.81        |
| Sales/Working Capital (x)                 | 22.31       | 7.62        | 18.14       | 29.9        |
| <b>Financial Stability Ratios</b>         |             |             |             |             |
| Total Debt/Equity(x)                      | 1.26        | 0.73        | 0.99        | 0.71        |
| Current Ratio(x)                          | 1.08        | 1.19        | 1.12        | 4.2         |
| Quick Ratio(x)                            | 0.28        | 0.36        | 0.32        | 1.1         |
| Interest Cover(x)                         | 2.70        | 5.75        | 5.02        | 6.06        |
| Total Debt/Mcap(x)                        | 3.16        | 0.94        | 0.25        | 0.44        |

Source: Company, Hem Securities Research.



## RATING CRITERIA

| INVESTMENT RATING | EXPECTED RETURN |
|-------------------|-----------------|
| BUY               | >=15%           |
| ACCUMULATE        | 5% to 15%       |
| HOLD              | 0 to 5%         |
| REDUCE            | -5% to 0        |
| SELL              | <-5%            |

## RECOMMENDATION SUMMARY

| DATE        | RATING | TARGET |
|-------------|--------|--------|
| 31-May-2023 | BUY    | 295    |

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Name of the Research Analyst: Madhur Mandhana

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|-----|---|--------|
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| 3.  | Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report   | No     |
| 4.  | Research Analyst has served as an officer, director or employee of the subject company(ies)   | No     |
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There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.