



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

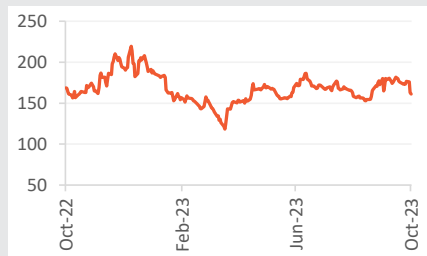
**Company details**

Market cap:	Rs. 1,070 cr
52-week high/low:	Rs. 229 / 115
NSE volume: (No of shares)	2.4 lakh
BSE code:	543593
NSE code:	DBOL
Free float: (No of shares)	3.3 cr

**Shareholding (%)**

Promoters	50.4
FII	5.6
DII	0.5
Others	43.6

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-10.4	-3.6	4.9	-4.4
Relative to Sensex	-9.4	-5.0	-5.1	-20.7

Sharekhan Research, Bloomberg

**Dhampur Bio Organics Ltd**  
Soft Q2; sugar recovery to improve in SS23-24

Miscellaneous	Sharekhan code: DBOL		
Reco/View: Buy	↔	CMP: Rs. 161	Price Target: Rs. 215 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Dhampur Bio Organics Ltd (DBOL) posted soft performance in a seasonally weak Q2FY2024 with net revenues growing by 4.5% y-o-y to Rs. 538.2 crore, while lower EBITDA margin dragged down operating profit by 14.3%. PAT stood at Rs. 0.1 crore versus Rs. 8 crore in Q2FY2023.
- Sugar capacity expansion and an increase in cane acreage will help sugar crushing to grow by 8-10% in the sugar season 2023-24; gross recovery might reach to 11.5%, which will help the sugar business post better margins.
- DBOL has put distillery capacity expansion on hold in view of likely lower diversion of cane to ethanol due to lower production. The company will assess cane production situation in the coming months and supply of grain/rice before commencing the work on expansion of distillery facility.
- Stock trades at 9x/8x its FY2024E/25E earnings. We maintain a Buy on the stock with an unchanged PT of Rs. 215.

**DBOL posted soft performance in seasonally weak quarter with net revenues growing by just 4.5% y-o-y to Rs. 538.2 crore (gross revenues grew by 23% y-o-y) while the EBITDA margins fell by 78 bps y-o-y to 3.6% resulting in 14.3% y-o-y decline in the operating profit to Rs. 19.2 crore. The sugar business revenue grew by 2.6% y-o-y, Biofuels & Spirits by 8.6% y-o-y and country liquor by 4.8x y-o-y in Q2FY24. Gross margins improved by 36 bps y-o-y to 16.2%. Adjusted PAT declined to Rs. 0.1 crore against Rs. 8 crore in Q2FY2023. Lower sugar recovery and a change in blend in the ethanol segment impacted profitability. For H1FY2024, net revenues grew by 11% y-o-y to Rs. 1,121.5 crore; EBITDA margin stood flat at 5.3% with the operating profit growing by 8.4% y-o-y to Rs. 60 crore and PAT decreased by 24% y-o-y to Rs. 12.7 crore.**

**Key positives**

- Sugar realisations grew by 7% y-o-y to Rs. 38.2 per kg.
- Biofuel & spirit (ethanol) sales volume grew by ~12% y-o-y to 26.5 mn BL.
- Country liquor sales grew by 4.8x; volumes sold stood at 6 lakh cases versus 1.2 lakh cases in Q2FY23.

**Key negatives**

- Biofuel & spirit business' PBIT margins were substantially down to 9.2% in Q2FY24 from 23.3% in Q2FY2023.

**Management Commentary**

- Expanded capacity of Asmoli (9,000 TCD to 12,500 TCD) and Meeranaj (5,000 TCD to 9,000 TCD) units to be operational by November 2023. The company expects crushing to start from last week of October, which is around 10 days earlier to last year.
- Sugarcane crop has been better than last year in Uttar Pradesh. The increase in capacity and higher cane acreage would lead to 8-10% increase in the sugarcane crushing next year. DBOL expects gross recovery rate to improve to ~11.5%. As per the management, less cane will be diverted towards ethanol in coming season.
- Distillery expansion plan has been kept on hold. The company wants to leverage on its expanded sugar capacity in backdrop of rising sugar prices and expected lower diversion of cane towards the ethanol manufacturing in the next sugar season.
- If availability of cane and grains improves in the domestic market, the company might re-think about expansion of distillery facility.
- Ethanol prices are expected to increase by Rs. 2 per litre. The company is focusing on change in mix to derive better profitability from distillery division. It is planning to convert the Asmoli unit into dual feed unit.
- Cane prices are expected to go up in the election year. However, expected improvement in the recovery rate will mitigate the impact of rise in cane prices while rise in sugar prices and ethanol prices will further support margins in the coming quarters.

**Revision in estimates** – Q2 performance will not give a clear picture of full year's performance and hence we have maintained our earnings estimates for FY2024 and FY2025 and we will review the same in the coming quarters (especially post Q3 performance).

**Our Call**

**View: Retain Buy with an unchanged PT of Rs. 215:** Headed by an experienced management team, DBOL has strategies to deliver consistent earnings growth in the medium term. The company is focusing on leveraging on expanded sugar capacity to drive the better performance in the coming years. The company is also looking at reducing its debt after fulfilling its capex requirement in the coming years. The stock is currently trading at 9x and 8x its FY2024E and FY2025E earnings. We maintain a Buy on the stock with an unchanged price target of Rs. 215.

**Key Risks**

Any change in the government's ethanol blending policy or delay in start of the sugar season due to weather vagaries or lower sugar supply would act as a key risk to our earnings estimates.

**Valuation (Consolidated)**

Particulars	FY22	FY23	FY24E	FY25E
Revenue	1,564	2,408	2,764	2,984
EBITDA Margin (%)	11.7	7.9	8.2	8.7
Adjusted PAT	102	98	122	142
Adjusted EPS (Rs.)	15.4	14.7	18.4	21.5
P/E (x)	10.5	11.0	8.7	7.5
P/B (x)	1.2	1.1	1.0	0.9
EV/EBITDA (x)	10.3	9.3	7.6	7.2
RoNW (%)	12.4	10.5	11.7	12.1
RoCE (%)	10.7	9.1	10.0	10.5

Source: Company; Sharekhan estimates

## Muted Q2 – Revenue growth at 4.5% y-o-y; EBITDA margin declined by 78 bps y-o-y

DBOL's Q2FY2024 net revenues grew by 4.5% y-o-y to Rs. 538.2 crore with sugar business revenue growing by 2.6% y-o-y to Rs. 459 crore, biofuels & distillery business net revenue growing by 8.6% y-o-y to Rs. 157 crore and county liquor business reporting a 4.8x y-o-y growth to Rs. 143.2 crore. Gross margins marginally improved by 36 bps y-o-y to 16.2%, while EBITDA margin fell by 78 bps y-o-y to 3.6%. EBITDA declined by 14.3% y-o-y to Rs. 19.2 crore. Adjusted PAT came in at Rs. 0.1 crore versus Rs. 7.9 crore in Q2FY2023. In H1FY2024, net revenue grew by 11% y-o-y to Rs. 1,121.5 crore, EBITDA margins stood flat at 5.3% and adjusted PAT declined by 24% y-o-y to Rs. 12.7 crore.

### Business-wise performance

- ◆ **Sugar** - The sugar business' revenues grew by 2.6% y-o-y to Rs. 459 crore in Q2FY2024, with sugar sales lower by 8.4% y-o-y to 0.95 lakh tonnes, while average realisation improved by 6.7% y-o-y to Rs. 38.15/kg. The business reported PBIT of Rs. 0.3 crore versus a loss of Rs. 4.7 crore in Q2FY2023. In H1FY2024, revenue grew by 8.1% y-o-y to Rs. 947.6, with sugar sales lower by 4.8% y-o-y to 1.93 lakh tonnes, while average realisation improved by 6.1% y-o-y to Rs. 37.89/kg.
- ◆ **Biofuels & spirits** - Biofuels & spirits business revenue grew by 8.6% y-o-y to Rs. 157 crore in Q2FY2024, aided by 11.9% y-o-y increase in quantity of ethanol sold to 26.45 million BL, while average realisation dropped by 4.7% y-o-y to Rs. 56/BL. PBIT margins of the business plunged to 9.2% in Q2FY2024 from 23.3% in Q2FY2023. In H1FY2024, revenue grew by 13.0% y-o-y to Rs. 311.9 crore, aided by a 13% y-o-y volume growth to 50.32 million BL, while average realisation marginally fell by 1.1% y-o-y to Rs. 58.5/BL.
- ◆ **Country liquor** - The country liquor business reported a revenue of Rs. 143.2 crore in Q2FY2024 versus Rs. 29.6 crore in Q2FY2023 (first quarter of operation), with sales volume rising to 5.97 lakh cases in Q2FY2024 from 1.19 lakh cases in Q2FY2023 and realisation improving from Rs. 253/case in Q2FY2023 to Rs. 283.7/case in Q2FY2024. The business registered a profit of Rs. 2.5 crore against a loss of Rs. 0.5 crore in Q2FY2023. In H1FY2024, the business reported revenue of Rs. 284.8 crore versus Rs. 29.6 crore in H1FY2023, with sales volume rising to 11.9 lakh cases from 1.19 lakh cases in H1FY2023 and realisation improving from Rs. 253/case in H1FY2023 to Rs. 283.5/case in H1FY2024.

### Key conference call highlights

- ◆ **Sugar industry outlook** - Estimated sugar production during the sugar season 2022-23 (SS 22-23) is likely to be ~32.8 million tonnes. With diversion of sugar towards ethanol estimated at 4.1 million tonnes, exports of ~6.4 million tonnes and domestic consumption of ~28 million tonnes, the sugar stock closing balance is estimated to be less than 5.6 million tonnes at SS 22-23-end. For SS 23-24, the company expects sugar production to drop further to 29-30 mn tonnes due to inconsistent rainfall in Maharashtra and Karnataka. Post estimated ~4 mn diversion to ethanol, sugar production for SS 23-24 is estimated at 23-24 million tonnes. Management expects crushing for SS 23-24 to start in October last week/November first week, which is around 10 days earlier to last year. With lower domestic production, the management expects a. no export quota (nil exports) in SS 23-24; b. prices to remain firm in the coming years.
- ◆ **Biofuel industry scenario** - Out of the 564.45 crore litres finalized by the OMCs for the Ethanol Supply Year 2022-23 (Dec.-Oct.) against a total requirement of 600 crore litres, contracts for 565.24 crore litres have been executed till August 2023-end. Out of the contracted quantity, 413.47 crore litres (or 73%) have been lifted by the OMCs till August 2023-end with average blending of 11.72%.
- ◆ **Capacity expansion** - Expanded sugar capacity of Asmoli (9,000 TCD to 12,500 TCD) and Meerganj (5,000 TCD to 9,000 TCD) units are expected to be operational by November 2023. Distillery expansion plan has been kept on hold. The company wants to leverage on its expanded sugar capacity in backdrop of rising sugar prices and expected lower diversion of cane towards the ethanol manufacturing in the next sugar season. If availability of cane and grains improves in the domestic market, the company might re-think on the expansion of distillery facility.
- ◆ **Sugarcane crushing and recovery rate** - Sugarcane crop has been better than last year in Uttar Pradesh. The increase in capacity and higher cane acreage would lead to 8-10% increase in the sugarcane crushing next year. DBOL expects gross recovery rate to improve to ~11.5%. As per the management, less cane will be diverted towards ethanol in the coming season.
- ◆ **Distillery business' profitability** - Ethanol prices are expected to increase by Rs. 2 per litre. The company is focusing on change in mix to derive better profitability from distillery business. It is planning to convert Asmoli unit into a dual feed unit.
- ◆ **Margin to be better** - Cane prices are expected to rise in the election year. However, expected improvement in the recovery rate will mitigate the impact of rise in cane prices, while a rise in sugar prices and ethanol prices will further support the margins in the coming quarters.

Results (Consolidated)				Rs cr	
Particulars	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)
Revenue from operations	665.6	541.6	22.9	709.5	-6.2
Less: Excise duty	127.4	26.6	-	126.2	1.0
<b>Total Revenue</b>	<b>538.2</b>	<b>515.1</b>	<b>4.5</b>	<b>583.3</b>	<b>-7.7</b>
Raw materials	450.8	433.3	4.0	459.0	-1.8
Employee costs	20.7	27.5	-24.8	23.4	-11.6
Other expenditure	47.6	31.9	49.0	60.3	-21.1
Total expenditure	519.0	492.7	5.3	542.8	-4.4
<b>EBITDA</b>	<b>19.2</b>	<b>22.4</b>	<b>-14.3</b>	<b>40.5</b>	<b>-52.7</b>
Other income	0.6	6.2	-90.0	2.4	-73.6
Interest expenses	8.8	9.1	-3.4	13.3	-33.9
Depreciation	10.5	8.7	20.0	11.1	-5.3
<b>Profit Before Tax</b>	<b>0.5</b>	<b>10.7</b>	<b>-95.5</b>	<b>18.5</b>	<b>-97.4</b>
Tax	0.4	2.8	-84.8	5.8	-92.8
<b>Adjusted PAT</b>	<b>0.1</b>	<b>7.9</b>	<b>-99.2</b>	<b>12.7</b>	<b>-99.5</b>
Adjusted EPS (Rs)	0.0	1.2	-99.2	1.9	-99.5
			<b>bps</b>		<b>bps</b>
GPM (%)	16.2	15.9	36	21.3	-506
EBITDA Margin (%)	3.6	4.3	-78	7.0	-339
NPM (%)	0.0	1.5	-153	2.2	-216
Tax rate (%)	87.5	25.8	-	31.5	-

Source: Company, Sharekhan Research

#### Segment-wise financial performance

Particulars	Q2FY24	Q2FY23	y-o-y (%/bps)	H1FY24	H1FY23	y-o-y (%/bps)
<b>Sugar Segment</b>						
Revenue (Rs. crore)	459.0	447.5	2.6	947.6	876.5	8.1
PBIT (Rs. crore)	0.3	-4.7	-	22.6	8.0	-
PBIT margin (%)	0.1	-1.1	113	2.4	0.9	148
<b>Biofuels &amp; spirits segment</b>						
Revenue (Rs. crore)	157.0	144.6	8.6	311.9	276.1	13.0
PBIT (Rs. crore)	14.5	33.6	-57.0	32.9	54.1	-39.2
PBIT margin (%)	9.2	23.3	-	10.6	19.6	-906
<b>Country liquor segment</b>						
Revenue (Rs. crore)	143.2	29.6	-	284.8	29.6	-
PBIT (Rs. crore)	2.5	-0.5	-	4.4	-0.5	-
PBIT margin (%)	1.7	-1.6	333	1.6	-1.6	315
<b>Total</b>	<b>759.3</b>	<b>621.8</b>	<b>22.1</b>	<b>1,544.3</b>	<b>1,182.2</b>	<b>30.6</b>
Less: Intersegment revenue	93.7	80.1		169.3	144.8	
<b>Gross revenue</b>	<b>665.6</b>	<b>541.6</b>	<b>22.9</b>	<b>1,375.0</b>	<b>1,037.3</b>	<b>32.6</b>
Less: Excise duty	127.4	26.6	-	253.6	26.6	-
<b>Net revenue</b>	<b>538.2</b>	<b>515.1</b>	<b>4.5</b>	<b>1,121.5</b>	<b>1,010.8</b>	<b>11.0</b>

Source: Company, Sharekhan Research

### Segment-wise operating performance

Particulars	Q2FY24	Q2FY23	y-o-y (%)	H1FY24	H1FY23	y-o-y (%)
<b>Sugar Segment</b>						
Sugar production (tonne)	-	-	-	49,916	51,995	-4.0
Sugar Sold (tonne)	94,870	1,03,525	-8.4	1,92,838	2,02,489	-4.8
Sale realisation (Per Kg)	38.15	35.75	6.7	37.89	35.72	6.1
Inventory (tonne)	10,364	1,06,003		10,364	1,06,003	
Valuation rate (Rs. /kg)	34.90	35.23		34.90	35.23	
<b>Biofuels &amp; spirits segment</b>						
Ethanol produced (Mn BL)	25.98	24.41	6.4	51.43	45.36	13.4
Ethanol sold (Mn BL)	26.45	23.63	11.9	50.32	44.52	13.0
Average realisation (Rs. /BL)	56.00	58.76	-4.7	58.54	59.17	-1.1
Ethanol stock	2.63	1.15		2.63	1.15	
<b>Country Liquor</b>						
Sales (No. of cases - lakhs)	5.97	1.19	-	11.90	1.19	-
Avg. Realisation (Rs. /case)	283.67	253.00	12.1	283.49	253.00	12.1
<b>Renewable energy segment</b>						
Power generated (cr. units)	1.23	1.10	12.3	8.31	6.98	19.1
Power exported (cr units)	-	-	-	2.08	2.04	1.9
Average realisation (Rs. /unit)	-	-	-	3.44	3.30	4.2

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Higher ethanol output to drive growth

As per the ISMA's latest estimates for SS2022-SS2023, total sugarcane production is estimated at 32.8 mt (net of diversion to ethanol). Diversion to ethanol will amount to ~4 mt. With consumption expected at 28 mt and exports at ~6 mt, surplus sugar is expected at ~4.2 mt. India achieved a 10% average blending percentage in June 2022, which is expected to improve in the ongoing sugar season. Sugar realisation is expected to be stable with the government expected to take care of surplus inventory by allowing sugar exports or higher diversion for ethanol production. The government aims to achieve 20% ethanol blending by 2024-2025, which would largely solve the problem of excess sugar over the medium term.

### ■ Company outlook - Strong growth prospects

FY2023 performance was impacted by a decline in the sugar recovery, an increase in sugar SAP and higher transportation cost, which led to lower sugar production affecting margins of the sugar business. With expanded sugar capacity and expected increase in the cane availability, sugar recovery to be better in Sugar year 2023-24. Better sugar recovery and higher sugar prices will mitigate the impact of higher cane prices and will help DBOL to post better profitability in FY2024.

### ■ Valuation - Retain Buy with an unchanged PT of Rs. 215

Headed by an experienced management team, DBOL has strategies to deliver consistent earnings growth in the medium term. The company is focusing on leveraging on expanded sugar capacity to drive the better performance in the coming years. The company is also looking at reducing its debt after fulfilling its capex requirement in the coming years. The stock is currently trading at 9x and 8x its FY2024E and FY2025E earnings. We maintain a Buy rating on the stock with an unchanged price target of Rs. 215.

#### Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Triveni Engineering & Industries	21.6	19.1	14.7	15.3	13.1	10.4	16.1	16.0	19.2
Balrampur Chini Mills	29.9	16.4	13.6	18.9	12.8	10.9	9.9	13.5	14.9
Dhampur Sugar Mills	12.3	9.9	8.4	8.8	8.3	7.0	14.2	14.7	15.1
Dhampur Bio Organics	11.0	8.7	7.5	9.3	7.6	7.2	9.1	10.0	10.5

Source: Company, Sharekhan estimates

## About company

DBOL was demerged from Dhampur Sugar Mills Ltd (DSML) vide a Scheme of Arrangement approved by the Board of Dhampur Sugar Mills Ltd. on June 7, 2021. DBOL is one of the leading sugar manufacturers in India with promoters having nearly nine decades of experience in the industry. DBOL's operations are integrated, with the company operating under two verticals: Sugar (refined, raw sugar and renewable energy) and Biofuels & Spirits (ethanol, country liquor, and organic fertilizers). DBOL has three plants in western-central Uttar Pradesh, which have a combined capacity to crush 22,000 MT of cane per day (TCD) (which is expected to increase to 29,500 TCD by FY24-end), distillery capacity of 312.5 KLPD (on B-heavy molasses), IMIL capacity of 4.2 million cases per annum and cogeneration capacity of 95.50 MW.

## Investment theme

Experienced promoters with long track record in sugar industry, expanded distillery capacity and integrated power capacity mitigating the industry cyclicalities will help DBOL delivering consistent operating performance in the coming years. Its strategy is designed to build on its strengths while exploring new avenues for growth. The strategy, summarised by Innovation, Integration and Value Creation, allows the company to improve production capabilities, diversify product range, and achieve a higher margin through better price propositions and lower costs. With the right strategies in place, we expect the company to clock revenue/PAT CAGR of 11%/21%, respectively, over FY2023-25E.

## Key Risks

- ◆ Decline in sugar production would impact the company's revenue and acts as a key risk to our earnings estimates.
- ◆ Change in the government's policies towards ethanol blending would affect the company's profitability.

## Additional Data

### Key management personnel

Vijay Kumar Goel	Chairman
Gautam Goel	Managing Director
Nalin Kumar Gupta	Chief Financial Officer
Ashu Rawat	Company Secretary & Compliance Officer

Source: Company

### Top 8 shareholders

Sr. No.	Holder Name	Holding (%)
1	Goel Anil Kumar	9.04
2	Goel Seema	3.70
3	Dimensional Fund Advisors LP	1.26
4	Acadian Emerging Markets Equity UCITS Fund	1.05
5	Russell Investments Group	0.12
6	Grantham Mayo Van Otterloo and Co	0.06
7	FMR LLC	0.04
8	American Century Cos Inc	0.02

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
<b>Negative</b>	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
<b>Positive</b>	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

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