Dalmia Bharat Sugar

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Dalmia Bharat Sugar

Be the change

"तत्परिवर्तनं भव"

Dalmia Bharat Sugar and Industries Limited

Integrated Annual Report 2022-23

Contents

Forward - looking statement

This document contains statements about expected future events and financial and operating results of Dalmia Bharat Sugar and Industries Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of the annual report.

Online Annual report
www.dalmiasugar.com

Corporate snapshot

Dalmia Bharat Sugar and Industries Limited.

We are among the youngest and largest sugar companies in India.

We are also the fastest growing.

We are the only sugar Company having a presence in Uttar Pradesh and Maharashtra, India's leading sugar producing States.

We are also among the most resilient.

We have been among the most innovative and differentiated among sugar companies.

The result is that we have emerged among the most dynamic sugar companies in India.

Vision

Vibrant growth under strong values embedded environment with strong impetus on value creation for all the stakeholders.

Mission

To be among the Country's top five sugar companies in respect of total revenue coupled with a strong impetus on value creation to drive the highest Return on Capital Employed (RoCE) in the industry.

Listing

The Company was listed on BSE and NSE with a market capitalization of ₹ 2735 Cr as on March 31, 2023.

Values

Integrity: Wisdom is knowing which is the right path. Integrity is taking that right path. Integrity is the quality of being honest and having strong moral values. It is our aptitude for doing what's right and not what's easy. We believe it is an opportunity to come out of our comfort zone and create a bridge of faith with those around us. We nurture a habitat where success is measured by conduct and individuals never stray from their line of duty.

Commitment: Motivation gets you started; commitment is what keeps you going. We believe commitment is the power which transforms a promise into reality. It is the bond that glues us with our goals and helps us realize that success is never attained by accident. It makes us believe that where there is a will, there is always a way.

Trust and respect: Trust takes years to build, seconds to break and forever to repair. Respect is earned but trust is gained. The two together remind us of our unique worth, multiply our combined strength and the miracles that each of us are capable of.

Humility: Humility is the concern of what is right and not who is right.

Perfection is impossible without humility. Humility is our ultimate strength; it is our willingness to follow as much as our capacity to lead. It discovers the true measure of our own self and transforms us into being open towards learning and growing. Humility is the bliss of an equilibrium that lets us scale to the next level of greatness that is captured in a single word and summed up in one philosophy.

Pedigree

DBSIL, a part of the Dalmia Bharat Group with a turnover of ₹ 3328 Cr, is a leading sugar producer Company in India. In 1994, the Company entered the sugar industry by establishing a 2500 TCD capacity sugar mill in Ramgarh, a village located in the Sitapur district of Uttar Pradesh. DBSIL is a relatively new entrant among the prominent sugar companies in India. The Company has established itself as one of the fastest-growing sugar companies in India, with a presence in two non-contiguous cane-growing States with experience spanning three decades, navigating various market cycles.

Management

Late Shri Jai Hari Dalmia, who was Vice Chairman and Managing Director of the Company, played a leading role in initiating Company's growth, together with Shri Gautam Dalmia, the present Managing Director and the senior management team.

Key businesses

Sugar: The Company's sugar production decreased by 2% in the financial year 2022-23, reaching 4.78 Lakh tonnes compared to 4.86 Lakh tonnes in the previous year. The Company reported a normative sugar recovery of 11.80% in Uttar Pradesh and 13.28% in Maharashtra during the Sugar Season (SS) 22-23. The higher sugar recovery rate was attributed to the use of superior cane variety and robust cane management practices.

Co-generation: The Company reduced its exposure to the cyclical nature of the sugar industry by producing power from bagasse. By operating co-generation plants at its sugar mills, DBSIL is able to produce renewable energy and lower its greenhouse gas emissions. In FY2022-23, around 39% of the Company's power generation was utilized for its own consumption, while the remainder was sold to the state electricity grid.

Distillery: The Company benefited from an increasing government focus on ethanol blending and in-house raw material availability by using molasses to manufacture ethanol. The Company's ability to produce different grades of alcohol such as ethanol, rectified spirit, and extra neutral alcohol, suggests that it has been able to cater to a wide range of customers, which contributed to a growth in distillery revenues. Distillery revenues increased 45 % from ₹ 698 Cr in FY2021-22 to ₹ 1013 Cr in FY2022-23.

Products

DBSIL has a strong commitment to environmental and social responsibility. During the sugar production process, molasses and bagasse are generated as by-products. DBSIL utilizes molasses to produce ethanol, which is a green fuel, while bagasse is used to generate clean power. This approach not only helps to reduce waste but also generates a 'green footprint' for the Company.

In FY2022-23, 36% of the Company's revenue came from non-sugar products. The Company is striking a balance between economic growth and social and environmental responsibility, strengthening sustainability.

Footprint

The Company is headquartered in Delhi and has manufacturing facilities in Uttar Pradesh and Maharashtra. This is possibly the only instance of a Company with sugar operations in these two non-contiguous States in India.

The Company markets products pan-India, with Uttar Pradesh, Maharashtra, and the eastern states being the major markets. It exports to various locations, including Indonesia, Malaysia, Bangladesh, China, Sri Lanka, Nepal, Bhutan, Middle East, Mediterranean countries, North Africa and East Africa.

The Company is a preferred supplier of sugar to brand-enhancing institutional giants like Coca-Cola, PepsiCo, Mondelez, Perfetti, Britannia, Walmart India, Dabur, D-Mart, India Glycols, Radico Khaitan Bacardi India, United Breweries, Carlsberg, SABMiller and others in the alcohol industry.

Manufacturing capacities

The Company owns and operates five modern sugar manufacturing plants located in two states- Maharashtra and Uttar Pradesh. Additionally, it has five co-generation plants that have a total capacity of 126 MW, spread across these two states. The Company also has four distilleries in Ramgarh, Jawaharpur, Nigohi and Kolhapur, with a combined capacity of 710 KLPD (Kilo Litres Per Day).

Responsibility

The Company is considered to be one of the most respected sugar manufacturers in the country due to consistent investments in integrity, safety, health, and environment. The Company received various certifications that validate its commitment to these areas, including Occupational Health and Safety Management (OHSAS), Environment Management System (EMS), Bonsucro and Food Safety and Quality (FSQ), Food Safety System Certification (FSSC), Supplier Guiding Principles (SGP)

Production capacity

Plants	Sugar (TCD)	Distillery (KLPD)	Cogeneration (MW)
Ramgarh, Uttar Pradesh	6400	140	28
Jawaharpur, Uttar Pradesh	9000	330	36
Nigohi , Uttar Pradesh	9250	120	30
Kolhapur, Maharashtra	8500	120	28
Sangli, Maharashtra	4000	0	4
Total	**37150**	**710**	**126**

Above numbers represent operating capacity.

Our industry associations

Bonsucro	Indian Sugar Mills Association	Uttar Pradesh Sugar Mills Association	West Indian Sugar Mills Association	The Sugar Technologists' Association of India	All India Distillers' Association	Co-generation Association of India
CII	FICCI	Indian Chamber of Commerce	UP Co Gen Association	UP Distillery Association	Indian Bio Gas Association	

Our growth story across the years

1994

First sugar plant was commissioned in Ramgarh (2,500 TCD capacity)

2007

Diversification & Intergration

- Presence in 3 locations in Uttar Pradesh.
- Sugar capacity expansion to 22,500 TCD
- Integration of sugar operations
- Distillery commissioning of 80KLPD
- Co-generation commissioning of 54 MW

2008

Co-generation expansion; total capacity was increased to 79MW in Uttar Pradesh.

2013

Regional Diversification

- Acquisition of a sugar mill in Kolhapur, Maharashtra, with a cane crushing capacity of 2,500 TCD

2014

Enhanced crushing capacity in Maharashtra to 5000 TCD

2015

Step towards sustainable model

- Acquisition of another mill at Sangli, Maharashtra, of 1,750 TCD capacity
- Co-generation capacity expansion at Maharashtra helped increase the total co-generation capacity to 102 MW

2016

Distillery plant was commissioned of 60 KLPD in the Kolhapur unit

2019

Increased Jawaharpur distillery capacity to 120 KLPD and commissioned the Nigohi Distillery (60 KLPD).

2020

Launched a sugar refinery of 1200 TPD at the Nigohi unit. Distillery capacity at Nigohi was expanded to 120 KLPD

2021

Ramgarh distillery was installed with 140 KLPD capacity

Jawaharpur distillery capacity was increased to 220 KLPD

Kolhapur distillery capacity was increased to 120 KLPD

2022

Commissioned the Jawaharpur refinery. Uttar Pradesh crushing capacity increased to 24850 TCD

2023

Ninaidevi capacity was expanded to 4000TCD

Grain distillery of 110 KLPD was installed at Jawaharpur.

Our awards and recognition

Industry Excellence Award by the Sugar Technologists Association of India

The Company's Ramgarh Unit received the prestigious 'Excellence Award' in the sugar industry category

Industry Excellence Award by International Association of Professionals in Sugar and Integrated Technologies

The Company was awarded the prestigious IAPSIT – Industry Excellence Award for outstanding contribution in promoting the sustainable development of the sugar industry

Best DM Plant Manager

The Company's Nigohi Unit plant manager has received best DM Plant Manager award at the National Co-generation Awards

Excellence Award for efforts to boost ethanol production

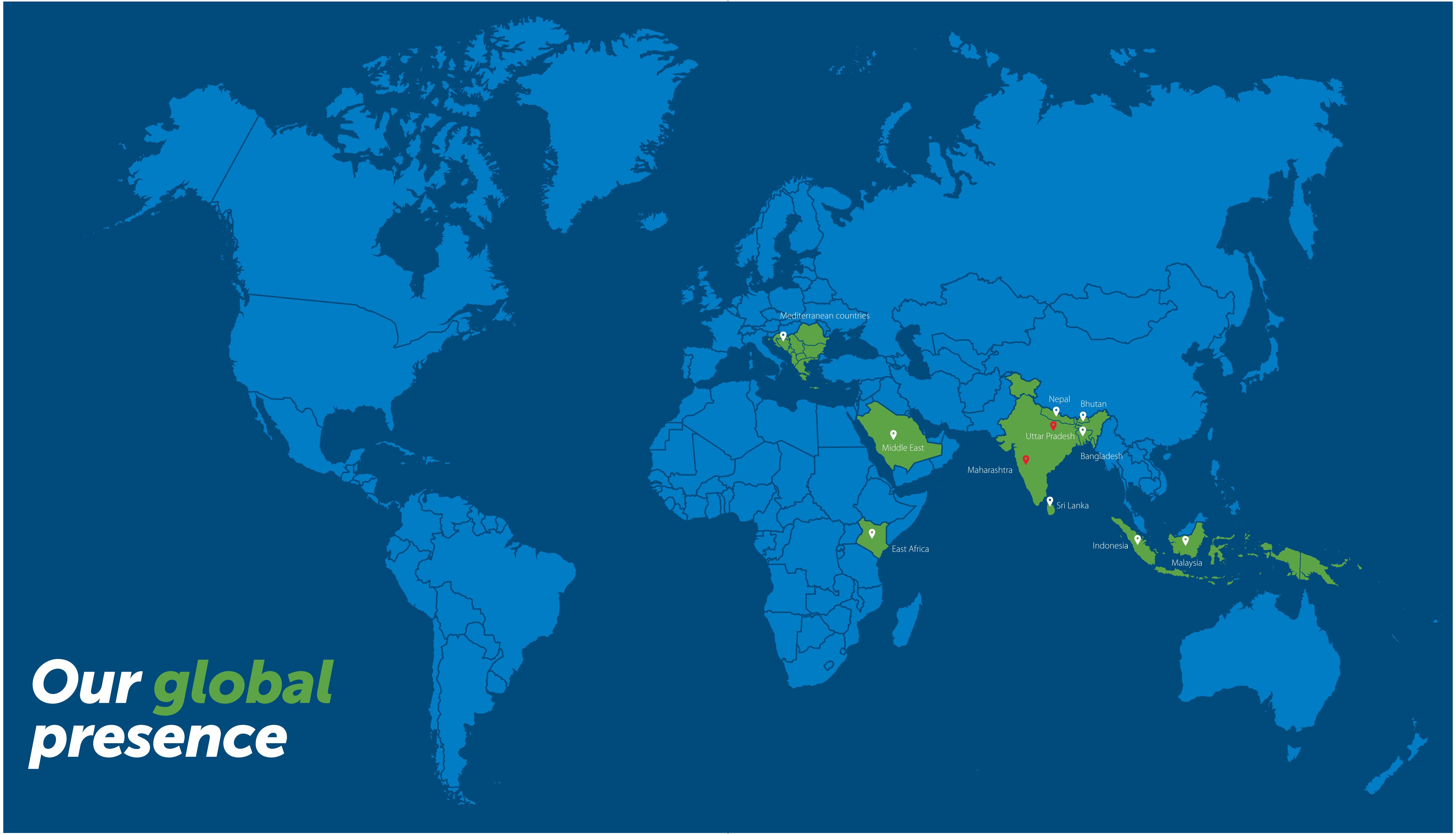
The Company received Excellence Award for efforts to boost ethanol production, undertake development of value-added products and diversification to enhance sugar quality

National Award for Excellence in Energy Management

The Company's Nigohi Unit has received the of 'Excellent Energy Efficient Unit Award'.

Sugar and Ethanol India Conference

The Company received this award in recognition of its participation in Sugar and Ethanol India Conference.

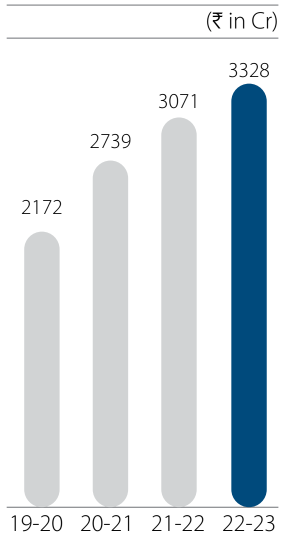


Our global presence

Preferred sugar supplier to prominent

Britannia, Perfetti van Melle, Carlsberg, Walmart, Dabur, DMart, Coca-Cola, PepsiCo, Mondelēz International, SAB Miller, Allied Blenders & Distillers, United Breweries Limited

Our performance across the years



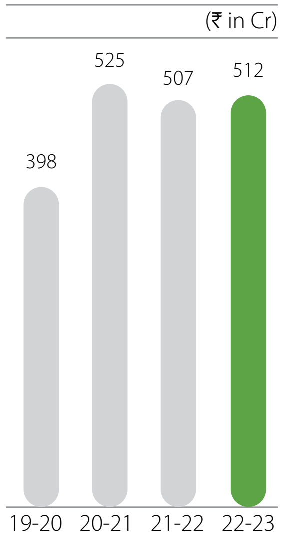
Revenues

Definition
Growth in sales net of taxes

Why is this measured?
It is an index that showcases the Company's ability to enhance revenues and compare with its retrospective average or sectorial peers.

What does it mean?
The revenue increased by 8% to ₹3328 Cr in FY2022-23 compared to the previous year.

Value impact
The Company performed better than the sectorial average and reported record revenues.



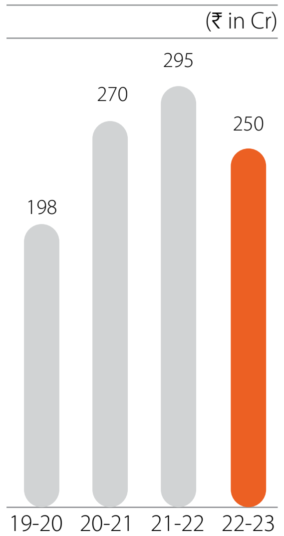
EBIDTA

Definition
Earnings before the deduction of interest, depreciation, extraordinary items and tax and amortization.

Why is this measured?
It is an index that showcases the Company's operating efficiency

What does it mean?
Helps enhance competitiveness, a basis of the Company's ability to build profits in a sustainable manner

Value impact
EBIDTA for FY2022-23 was above ₹500 Cr for the third consecutive time, an index of the Company's consistancy in financial performance despite substantial cane price increases.



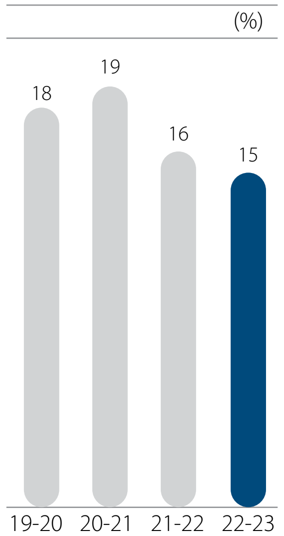
Net profit

Definition
Profit earned during the year after deducting all expenses and provisions.

Why is this measured?
It highlights the strength of the business model in generating value for its shareholders.

What does it mean?
Ensures that adequate cash is available for reinvestment and allows the Company's growth engine to sustain

Value impact
The Company reported a 15 % decline in net profit in FY2022-23, mainly on account of abnormalities towards impairment and deferred tax reversal during FY2021-22.



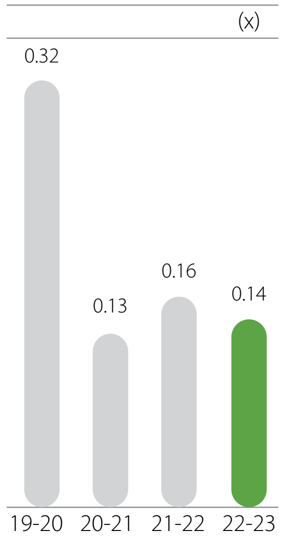
EBIDTA margin

Definition
EBITDA margin is a profitability ratio used to measure a company's pricing strategy and operating efficiency

Why is this measured?
The EBITDA margin gives an idea of how much a company earns (before accounting for interest and taxes) on each rupee of sales.

What does it mean?
Demonstrates adequate buffer in the business, which, when multiplied by scale, enhances surpluses.

Value impact
The Company reported EBITDA margin during FY2022-23 of 15%, lower by 100 bps due to higher opening stock valuation on account of a cane price increase in the previous year that could not be fully offset by higher sugar realisations.



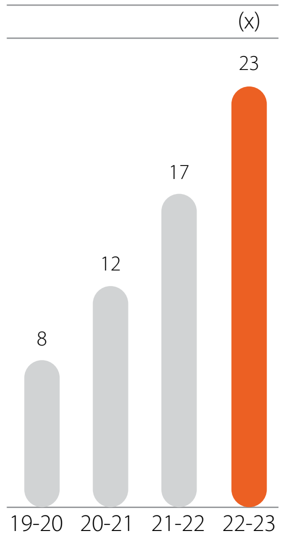
Gearing

Definition
This is derived through the ratio of debt to net worth

Why is this measured?
This is one of the defining measures of a Company's financial health, indicating the ability of the Company to remunerate shareholders over debt providers (the lower the gearing the better)

What does it mean?
Adds value in the hands of shareholders by strengthening the equity side

Value impact
The Company's gearing improved from 0.16 to 0.14.



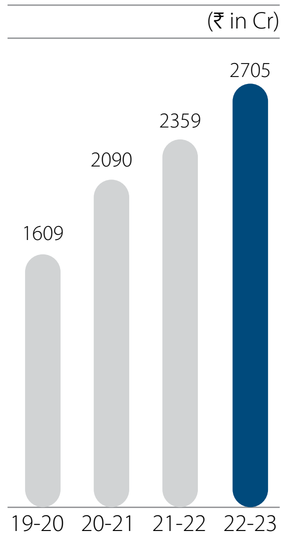
Interest cover

Definition
This is derived through the division of EBITDA by interest outflow

Why is this measured?
Interest cover indicates the Company's comfort in servicing interest – the higher the better.

What does it mean?
A company's ability to meet its interest obligations, an aspect of its solvency, is arguably one of the most important factors in guaranteeing sizable returns to shareholders.

Value impact
The Company's interest cover strengthened from 17 x to 23 x, backed by an increase in EBITDA.



Net worth

Definition
This is derived through the accretion of shareholder owned funds

Why is this measured?
Net worth indicates the financial soundness of the Company – the higher the better

What does it mean?
This indicates the borrowing capacity of the Company and influences the gearing (which ,in turn, influences the cost at which the Company can mobilize debt).

Value impact
The Company's net worth strengthened by 15% during the year.

First person

We are building a foundation that should translate into sizable and sustainable long-term growth in stakeholder value

Overview

At the outset I would like to highlight that the Company is in a phase of aggressive expansion especially in the distillery segment and has sown the seeds of a significantly higher trajectory of profitability growth in the coming years.

Perspective

Before dwelling further on other aspects, it is imperative to review the government's National Biofuel Policy 2018. The policy articulated a higher blending ratio of ethanol with automotive fuel and empowered sugar companies to switch from the manufacture of sugar (which was earlier seen as mandatory) to ethanol.

This forward-looking policy has proved to be a win-win for all stakeholders in the industry value chain. It has ensured that the benefits of bio-fuel manufacture translate to cane farmers in the form of timely and adequate compensation, helping build the country's agricultural sector from the grassroots upwards and reinforcing the rural economy. The policy has provided the country's sugar industry with a second wind; a number of companies have invested aggressively in their distilleries; within just a few years, even as the larger proportion of revenue is being derived from sugar, the proportion of profit is being largely derived from distillery operations, enhancing shareholder value. The increased use of ethanol in automotive fuel (estimated at around 11% today and likely to increase to 20% in the next couple of years) has already begun to moderate vehicular pollution through a better fuel combustion in automotive engines, benefiting society. The enhanced use of ethanol has helped moderate oil imports with positive implications for the country's foreign exchange reserves and currency strength.

I cannot think of any policy that has had such extensive multi-stakeholder upside as this one, transforming the health of the country's sugar industry in a compressed period of time. The outcome is that a cyclical sector has turned sustainable and is likely to remain so across the foreseeable future.

Performance

The performance of your Company during the last financial year was built around the backdrop of this positive sectorial landscape. Your Company reported a revenue growth of 8%.The Company reported an EBITDA margin of 15%. Increase in cane prices last year resulted in a higher opening inventory carrying cost for the year without a commensurate increase in sugar prices.

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Transformation

I must take this opportunity to explain a profitable churn in the Company's revenue and Balance Sheet profiles that should translate into enhanced value across the foreseeable future.

The proportion of revenues being derived from distillery operations increased during the last financial year – from 24% of overall revenues to 31%. Besides, the Company's distilleries operated for an average 314 days, delivering an average (across distilleries) capacity utilization of nearly 100%.

This increased distillery revenue proportion had a transformative impact on the Company's Balance Sheet. The manufacture of sugar is compressed within a period of five months; the sale of that sugar often extends across 15 months. During this period, your Company (as also the sector) needs to store the sugar in its factory. This storage represents blocked inventory that can only be progressively liquidated as per the sugar release advice received from the government. While the sugar lies unsold, the Company is required to invest in working capital (and short-term debt correspondingly mobilized) on its books. This increases the interest outflow and moderates profits. This is how the Company operated for years, becoming a part of its legacy, culture and practice.

This reality has begun to transform. Thanks to the government's permission to companies to move from the manufacture of sugar to ethanol at will, your Company has begun to 'sacrifice' the production of sugar and utilize the cane syrup to manufacture ethanol instead (or utilize the molasses generated from sugar manufacture to do the same). This one switch has transformed the dynamics of the sugar industry and our Company for an important reason: ethanol enjoys a ready market and does not need to be inventorized. The Company can generate immediate revenues and get remunerated in less than a month by oil marketing companies. This quicker revenue inflow has helped your Company moderate its working capital (and related debt) outlay. The result is that the more ethanol we manufacture, the less short-term debt on our books (in addition to interest subvention on long-term loan to set up a distillery, which is an additional bonus).

The result is that the Company's peak working capital outlay has increased from ₹794 Cr to ₹ 887 Cr. Correspondingly, interest outflow moderated from ₹35 Cr to ₹38 Cr even as the Company's revenues grew by 8%. Interest cover (an index of how effectively we cover interest payment through our EBITDA) strengthened from 17x to 23x. The Company's credit rating was maintained at the same level.

The growth of this one business – distillery – has transformed your Company's financial foundation. If one removes concessional debt from the Balance Sheet, the quantum of long-term debt was ₹401.17 Cr as on March 31 2023. Your Company's debt-equity ratio strengthened from 0.17 to 0.15 despite an ongoing expansion programme.

The conclusion that I would want our shareholders to take note of comprise: your Company's growth is being driven by internal accruals; your Company is generating adequate surplus to plough into aggressive capacity growth; this capacity expansion is expected to graduate the Company to one of the largest ethanol producers in Uttar Pradesh in 2024. This capacity expansion is expected to provide the Company with a large and liquid foundation that should translate into a sustainably enhanced shareholder value.

Capacity expansion

Given a positive industry environment, where the government intends to procure an even larger quantum of ethanol, the priority is for an opportunity-driven Company like yours to commission additional distillery capacity.

Your Company possessed a distillery capacity of 710 KLPD as on March 31 2023 following an expansion of 110 KLPD that was commissioned in October 2022. The Company is presently engaged in increasing Jawaharpur grain distillery capacity of 110 KLPD to 250 KLPD that should get commissioned by December 2023. Given the industry optimism, your Company announced yet another expansion – making it two expansions in the pipeline – of 300 KLPD at Nigohi that is expected to be commissioned in September 2024.

I must assure our shareholders that these expansions – even as they have been planned with speed – will only enhance the value of their holdings for the following reasons.

One, the sharp increase in distillery capacity – from 600 KLPD as on March 31 2022 to 1150 KLPD as on March 31 2025 – will translate into an estimated 33 Cr liters of ethanol throughput per annum, which provides the Company with enhanced revenue and profit visibility.

Paradigm shift from sugar to ethnol and then Penetration to Grain Ethanol will not only lead to better business model but will give us an opportunity to be a leading participant in ethanol blending program.

Two, with virtually all our molasses-based distillery capacity having been optimized, we will commission around 550 KLPD distillery capacity around grain, which will be our future growth driver.

Three, the ratio of sugar capacity to distillery capacity (following our expansion programmes) will be among the lowest in the industry with correspondingly positive upsides for our capital efficiency.

Four, our distilleries will be fueled by bagasse generated from within, obviating the need for the procurement of fossil fuels – a cheaper and cleaner way to grow our business.

Five, we will sustain the switch from sugar to ethanol until sugar realisations rise to the point where it becomes significantly remunerative to produce sugar over ethanol.

Outlook

At Dalmia Bharat Sugar, we have aggressively invested in building productive and profitable assets through net worth as the best way to remunerate shareholders. By doing this, we believe we would be putting capital to the best use. This policy will be sustained across the foreseeable future.

We believe that we are building a foundation that should translate into sizable and sustainable long-term growth that should enhance value for all our stakeholders in a sustainable way.

Gautam Dalmia
Managing Director