EID Parry (India) Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**The business is executing a strategic pivot toward high-margin Bio-energy and FMCG, with Ethanol now contributing 22% of standalone revenue to reduce cyclical sugar exposure.**	—
2	**Consolidated revenue surged 49.84% to □35,244 Cr, driven by the fertilizer subsidiary and aggressive scaling of the distillery segment.**	—
3	***Operating margins face pressure from a 2,022 Cr working capital drain, primarily due to a 39.4% spike in finished goods inventory and subsidy delays.***	—
4	**Reported PAT reached □1,828 Cr, supported by strong sugar recovery rates of 11.89% in key regions and a shift toward higher-margin ethanol juice diversion.**	—
5	***Total debt rose to 1,618 Cr with a concerning 90.7% concentration in short-term borrowings, causing interest costs to double to 298 Cr.***	—
6	***Cash Flow from Operations (CFO) collapsed to 359 Cr, representing a severe red-flag conversion rate of only 20% of PAT.***	—
7	***Aggressive capex of 839 Cr (2.34x CFO) has pushed Free Cash Flow into negative territory at - 370 Cr.***	—
8	***Earnings quality is compromised by aggressive accounting, including 60-year asset lives for buildings and a massive disconnect between accrual profits and cash realization.***	—
9	Governance remains a core strength with 0% promoter pledging, 50% board independence, and a clean 10/10 governance scorecard.	—
10	***Significant execution and valuation risks persist due to the 254 Cr loss and 106 Cr impairment at the PSRIPL refinery subsidiary.***	—
11	The outlook depends on the successful commissioning of the 582 KLPD distillery capacity by April 2024 and the liquidation of the □3,007 Cr inventory pile.	—
12	Investment View: Watch; maintain a cautious stance until the CFO/PAT ratio exceeds 0.70x and inventory levels normalize below □2,200 Cr.	—

1. Business overview

- **Strategic Pivot:** EID Parry is transitioning from a cyclical sugar commodity player to a "Bio-energy, Food, and Nutrition" company to de-link valuation from industry volatility.
- **Business Verticals:** The company operates through four segments: Sugar (Institutional & Retail), Distillery (Ethanol & ENA), Co-generation (Power), and Nutraceuticals (Micro-algae like Spirulina).
- **Revenue Drivers:** Ethanol is the primary growth engine, now contributing ~22% of standalone revenues. Institutional sugar sales (35% of sugar revenue) provide a buffer against retail price volatility.
- **Cost Drivers:** Sugarcane accounts for >90% of sugar production costs. Mitigation strategies include improving recovery rates (11.89% in Karnataka) and closing under-utilized factories in Tamil Nadu.

- **Expansion Plans:** Distillery capacity is expanding from 297 KLPD to 582 KLPD by April 2024, including a 120 KLPD multi-feed distillery at Sankili and 165 KLPD across Haliyal and Nellikuppam.
- **Asset-Light Strategy:** Management plans to move into non-sweetener food products using an asset-light model, leveraging the 'Parry's' brand while outsourcing manufacturing.
- **Acquisitions & Subsidiaries:** Coromandel International (CIL) remains the "crown jewel" providing financial flexibility. Conversely, the refinery subsidiary (PSRIPL) is a pain point, incurring a ₹254 Cr loss and a ₹106 Cr impairment.
- **Geographical Presence:** Shifting assets from Tamil Nadu to Karnataka to capture higher cane availability and superior recovery yields.

2. Management commentary & outlook

- Management has adopted a "conscious sacrifice" strategy, diverting sugarcane juice away from sugar production to ethanol (100,698 MT sacrificed in FY23 vs 59,447 MT in FY22) to prioritize margins over volume.
- The distillery segment is viewed as a "cash-accretive" engine that structurally shortens the working capital cycle from 14 months (sugar) to 3-4 weeks (ethanol).
- Management is highly optimistic about the Government of India's 20% Ethanol Blending Program (EBP) target by 2025.
- The company is aggressively pushing Branded Sugar, aiming to increase retail reach from 70,000 outlets to 500,000 in the medium term.
- Sugar is being repositioned as a "health and hygiene" product with the launch of Low GI (Glycemic Index) sugar and "Sweet Care" for urban demographics.
- Management remains wary of the "tightly controlled" regulatory environment (FRP pricing, export quotas) and is diversifying into Nutraceuticals and Branded Foods to gain pricing power.
- Despite temporary slowdowns in US/EU markets, management is doubling down on science-based validation for the Nutraceuticals business to maintain a premium position.
- The successful commissioning of the 120 KLPD distillery at Sankili in Q4 FY23 demonstrates strong project execution capability.
- Management Tone: The management tone is **Pragmatically Aggressive**. There is a clear admission of the unviability of commodity sugar in certain geographies, balanced by a high-conviction bet on Bio-energy and Branded Foods. While transparent regarding the failures in the refinery business (PSRIPL), they remain highly optimistic about "reimagining" the brand as a "Value-Added Agri-Science" entity.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	35,244	23,521
Sales Growth %	49.84	26.76
Expenses	32,088	21,146
Material Cost %	79	75
Raw material cost	28,882	17,769
Change in inventory	-971	-148
Manufacturing Cost %	3	4
Employee Cost %	2	3
Other Cost %	6	8
Operating Profit	3,156	2,375
OPM %	9	10
Other Income	83	240
Exceptional items	56	-14
Other income normal	28	254
Interest	298	152
Depreciation	376	334
Profit before tax	2,564	2,129
Tax %	29	26
Net Profit	1,828	1,574
Minority share	-880	-667
Exceptional items AT	40	-10
Profit excl Excep	1,788	1,584
Profit for PE	927	913
Profit for EPS	947	907
Profit Growth %	2	91
EPS (□)	53.37	51.12
Dividend Payout %	18	22

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	18	18
Reserves	6,067	5,308
Borrowings	1,618	1,259
Long term Borrowings	111	79
Short term Borrowings	1,080	743
Lease Liabilities	427	437
Other Borrowings	0	0
Other Liabilities	11,076	9,358
Non controlling int	3,454	2,774
Trade Payables	6,456	5,497
Advance from Customers	140	231
Other liability items	1,025	855
Total Liabilities	18,778	15,943
Fixed Assets	3,889	3,763
Land	615	610
Building	1,246	1,124
Plant Machinery	4,730	4,428
Furniture n fittings	182	153
Railway sidings	0	0
Vehicles	60	46
Intangible Assets	66	62
Other fixed assets	142	126
Gross Block	7,041	6,548
Accumulated Depreciation	3,152	2,785
CWIP	486	160
Investments	609	563
Other Assets	13,794	11,456
Inventories	6,195	5,363
Trade receivables	812	573
Cash Equivalents	1,466	1,839
Loans n Advances	714	1,533
Other asset items	4,607	2,147
Total Assets	18,778	15,943

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	359	2,278
Profit from operations	3,078	2,573
Receivables	-244	279
Inventory	-823	-1,289
Payables	1,472	1,065
Other WC items	-2,427	161
Working capital changes	-2,022	217
Direct taxes	-698	-511
Cash from Investing Activity	487	-1,732
Fixed assets purchased	-839	-449
Fixed assets sold	111	16
Investments purchased	-55	0
Investments sold	6	29
Investment income	0	0
Interest received	145	107
Dividends received	1	1
Invest in subsidiaries	0	0
Investment in group cos	-157	-19
Redemp n Canc of Shares	0	0
Inter corporate deposits	242	-418
Other investing items	1,032	-999
Cash from Financing Activity	-184	-499
Proceeds from shares	23	12
Proceeds from debentures	0	0
Proceeds from borrowings	383	245
Repayment of borrowings	-24	-226
Interest paid fin	-251	-110
Dividends paid	-246	-349
Financial liabilities	-70	-72
Other financing items	0	0
Net Cash Flow	661	47
Free Cash Flow	-370	1,845
CFO/OP	33	117

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	8	9
Inventory Days	81	111
Days Payable	84	114
Cash Conversion Cycle	5	6
Working Capital Days	27	29
ROCE %	27	26

3.2 Financial analysis summary

- **Revenue** surged 49.84% to □35,244.00 Cr, with 84.5% of total income (□29,799.03 Cr) contributed by the subsidiary Coromandel International Ltd, though top-line quality is subject to management judgment via the "most likely method" for rebates and Nutrient Based Subsidy (NBS) estimations.
- **Operating Profit** grew to □3,156.00 Cr, but OPM % diluted to 8.95% as Material Cost % rose to 79.00%, driven by a 58.4% spike in inventory consumption costs to □27,911.38 Cr which was only partially offset by a □19.01 Cr reversal of previous Inventory write-downs.
- **Net Profit** reached □1,828.00 Cr, yet earnings quality is impacted by a Depreciation policy that uses technical evaluations to stretch the useful lives of Fixed Assets up to 60 years, potentially inflating PAT relative to standard accounting lives.
- **Cash from Operating Activity** collapsed to □359.00 Cr from □2,278.00 Cr, resulting in a poor CFO/PAT ratio of 0.20, as Working Capital changes drained □2,022.00 Cr due to a 39.4% buildup in finished goods Inventory to □3,007.82 Cr and □825 Cr locked in government balances and advances.
- **Trade Receivables** grew 41.5% to □811.95 Cr, outpacing the 15.5% growth in total Inventory, signaling potential credit loosening or delays in government subsidy realizations, which directly contributed to the -□244.00 Cr drain in the Cash Flow Statement.
- **Total Debt** increased to □1,618.00 Cr, with Short term Borrowings comprising 90.7% of the total (□1,080.20 Cr), leading to a doubling of Interest costs to □298.00 Cr and reducing the Interest Coverage ratio from 15.01 to 9.60.
- **Capex** of □839.00 Cr was 2.34x the CFO, forcing the company into a negative Free Cash Flow of -□370.00 Cr, while CWIP ballooned 3.5x to □486.00 Cr, indicating high execution risk for ongoing projects.
- **ROCE %** improved slightly to 27.00%, but the group faces asset quality risks at the PSRIPL subsidiary, where management avoided impairment of Fixed Assets despite two years of losses and the functional currency being USD, which introduces translation volatility.
- **Investments** of □609.00 Cr include strategic holdings like TIFERT, where shares are pledged to secure associate debt, and others like APGPCL which have been written down to Nil value, indicating historical capital allocation leakage.
- **Net Worth** grew via Reserves to □6,067.00 Cr, but the group holds □1,640.00 Cr in inter-corporate deposits with HDFC Ltd instead of utilizing this cash to pay down high-interest Short term Borrowings or fund the massive Working Capital requirements.
- **Other Assets** include □479.98 Cr in "Balance with Government Authorities" and □345.96 Cr in "Advance Recoverable in Kind," representing nearly □825 Cr of liquidity locked in non-cash forms (GST/Subsidies). Other Liabilities are impacted by a new □97.63 Cr provision for demurrages, suggesting significant logistical inefficiencies. Other Expenses were pressured by a □157.46 Cr mark-to-market loss on commodity futures.

- The dominant financial theme of the year is **aggressive top-line scaling and capital expenditure funded by debt and working capital depletion, leading to a severe disconnect between accounting profits and cash generation.**

3.3 Contingent liabilities & commitments

- **Share Pledge:** The group has pledged 33.75 lakh shares of Tunisian Indian Fertilisers S.A. (TIFERT) to secure the associate's lenders.
- **Capital Commitments:** Significant ongoing commitments for PPE (Note 51 referenced), evidenced by the □**486 Cr** CWIP balance.
- **Litigation:** Provisions are only made when obligations are "probable"; however, specific quantified litigation values were not disclosed in the provided report snippets.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; ₹359 Cr CFO vs ₹1,828 Cr PAT indicates poor cash conversion.	—	CFO/OP ratio plummeted from 117% to 33% due to massive working capital blockage.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — channel stuffing risk; combined receivables and inventory rose ₹1,071 Cr vs sales growth.	—	Note 9: Receivables growth outpaced inventory growth, suggesting potential loosening of credit terms to drive sales.
3	Revenue timing	Revenue ↑ — aggressive recognition; subsidy income recognized on estimates before government notification finalization.	—	Note 1.6(ii): Coromandel revenue relies on management estimates for NBS rates when official notifications are pending.
4	Revenue from related parties %	Neutral — low direct RPT revenue; receivables from director-related companies are negligible at ₹0.11 Cr.	—	Note 18.2: Promoter holding remains stable at 38.34%; direct related party sales are not a material concern.
5	Inventory vs revenue growth	Profit ↓ — margin pressure; finished goods inventory spiked 39.4% indicating potential unsold stock buildup.	—	Note 13: Massive buildup in finished goods carries risk of obsolescence or price correction in sugar/fertilizer.
6	Inventory valuation method change	Profit ↑↓ — inconsistency risk; different subsidiaries use different valuation methods (Specific ID vs Weighted Avg).	—	Note 1.20: Inconsistent valuation methods across the group complicate consolidated margin and earnings quality analysis.
7	Exceptional items in operating profit	Profit ↑ — non-recurring boost; ₹56 Cr exceptional gain included in PBT calculation for FY23.	—	P&L: Exceptional items contributed to the 2% growth in Profit for EPS despite operational cash flow stress.
8	Depreciation rate vs useful life policy	Profit ↑ — lower expenses; useful lives extended up to 60 years for buildings, reducing annual charges.	—	Note 1.16: Depreciation based on technical evaluations rather than Schedule II, allowing for potentially stretched asset lives.
9	Provision reversals boosting PAT	Profit ↑ — non-cash gain; ₹19.01 Cr inventory write-down reversal directly improved the bottom line.	—	Note 13: Frequent reversals of inventory write-downs can be used to smooth earnings during high-cost periods.
10	Tax rate consistency	Profit ↓ — higher tax outflow; effective tax rate rose to 29% from 26% YoY.	—	P&L: Tax rate is consistent with statutory norms, though cash tax paid is significantly higher than previous year.
11	CWIP age and stalling projects	Profit ↑ — interest capitalization; CWIP increased 3x, delaying depreciation and potentially masking project delays.	—	Forensic Note: 3.5x increase in CWIP suggests large projects are not yet commissioned, delaying returns on capital.
12	Deferred tax asset recognition adequacy	Profit ↑ — subjective valuation; management avoided impairment on loss-making PSRIPL using "value in use" projections.	—	Note 1.28(vii): Auditor KAM highlights impairment of PSRIPL as a risk; management uses aggressive growth assumptions to avoid write-downs.
13	RPT quantum and trend	Neutral — cash management; ₹1,640 Cr held in inter-corporate deposits with HDFC Ltd.	—	Note 10: While large, deposits are with a high-quality counterparty (HDFC), though they represent idle core-business cash.
14	Dividend paid vs FCF adequacy	Profit ↓ — liquidity strain; dividend of ₹246 Cr paid despite negative Free Cash Flow.	—	Cash Flow: Paying dividends from borrowings or existing cash rather than generated FCF indicates potential liquidity pressure.
15	Auditor KAM: Subsidy Recognition	Revenue ↑ — estimation risk; recognition of NBS subsidy based on management estimates before government notification.	—	Risk of revenue mismatch if government finalizations differ from accruals.

#	Check	Impact	Status	Notes detail
16	Auditor KAM: Inventory Verification	Profit ↑↓ — measurement risk; PSRIPL uses volume-to-weight conversions for sugar/coal heaps.	—	Physical verification method is inherently less precise than weight-based tracking.
17	Investment Value Erosion	Profit ↓ — capital loss; write-down of TIFERT loan and APGPCL investment to Nil.	—	Indicates a pattern of value erosion in long-term strategic investments.
18	Logistical Inefficiency	Profit ↓ — margin hit; new provision for demurrages of ₹97.63 Cr.	—	Suggests significant logistical inefficiencies or port delays impacting operational costs.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **KAM - Subsidy Income Recognition:** Auditor focused on the estimation of Nutrient Based Subsidy (NBS) rates and "reasonable assurance" of meeting Direct Benefit Transfer (DBT) conditions for Coromandel International. * **KAM - Inventory Verification (PSRIPL):** Auditor flagged the subjectivity of volume-to-weight conversions for raw sugar and coal heaps at the PSRIPL subsidiary. * **KAM - Impairment of Assets (PSRIPL):** Auditor highlighted the risk of overvaluation of PPE at the loss-making PSRIPL subsidiary. Management used "value in use" projections to avoid impairment. * **Internal Controls:** The internal financial control (IFC) system was deemed adequate and effective. * **Auditor Change:** Price Waterhouse Chartered Accountants LLP was appointed in 2022 for a 5-year term.

B. Related Party Transactions | Party | Relationship | Nature | Amount (₹Cr) | Concern | | ------- | ---------- | -------- | ---------- | ------- | | HDFC Ltd | Financial Institution | Inter-corporate Deposits | 1,640.00 Cr | ***High liquidity concentration*** | | TIFERT | Associate | Share Pledge for Debt | 33.75 Lakh Shares | ***Encumbrance of assets*** | | Director-related Cos | KMP Interest | Receivables | 0.11 Cr | Negligible | | PSRIPL | Subsidiary | Investment Impairment | 105.96 Cr | ***Value erosion*** |

- **RPT Verdict: Monitor ** — While direct tunneling is not evident, the encumbrance of associate shares and the massive ₹1,640 Cr ICD balance (456% of CFO) suggest significant cash lock-up in non-core assets while the core business is cash-constrained.

C. Shareholding | Shareholder category | Mar 2023 (%) | Mar 2022 (%) | | :---------- | ----------: | ----------: | | Promoters | 44.52 | 44.65 | | FIIs | 10.19 | 8.87 | | DIIs | 4.34 | 4.45 | | Public | 40.95 | 42.03 |

- **Pledged Shares:** 0.00% of promoter holding.

D. Board Composition + KMP Compensation * **Board Independence:** 50% (5 out of 10 directors are independent). * **Women Directors:** 2 (Ms. Meghna Apparao, Dr. Rca Godbole). * **KMP Compensation:** Chairman M.M. Venkatachalam received ₹0.20 Cr. **M.M. Venkatachalam (Chairman) is the uncle of Muthiah Murugappan (WTD & CEO).** Detailed remuneration for MD, CEO, and CFO was not provided in the consolidated snippet, preventing a full correlation analysis with the 32.88% EBITDA growth.

F. Capital Allocation & Capex | Action | FY current (₹Cr) | FY prior (₹Cr) | % of CFO | Signal | | ------- | ---------- | -------- | ---------- | --------- | | Dividends | 246.00 Cr | 349.00 Cr | 68.52% | — | | Capex | 839.00 Cr | 449.00 Cr | 233.70% | — | | Net Debt Change | 359.00 Cr | -1,000.00 Cr | 100.00% | — | | Working Capital Investment | 2,022.00 Cr | -217.00 Cr | 563.23% | — |

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex:** Ratio is 0.43; CFO is insufficient to self-fund capex, requiring external debt.
  - **Nature of Capex:** Primarily growth-oriented (Sankili and Haliyal distillery units).
  - **Deployment Efficiency: CWIP spiked 3.5x to ₹486.00 Cr**, signaling a heavy investment phase not yet contributing to cash flows.

- **Takeaway:** Value-neutral. Debt is being used to fund a bloated working capital cycle and aggressive capex.

H. Risks * **Regulatory/Cane Pricing (High):** Government-fixed FRP can squeeze margins if sugar prices don't track costs. * **Subsidy Realization (High):** Dependence on NBS/DBT payments causes massive CFO/PAT divergence. * **Asset Impairment (High):** Loss-making PSRIPL subsidiary risks a write-down of its □2,288 Cr PPE base. * **Forex Volatility (Medium):** PSRIPL uses USD as functional currency, creating translation volatility. * **Logistical Inefficiency (Medium):** □97.63 Cr provision for demurrages impacts margins directly.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	49.8% Sales Growth; Ethanol mix 22%	Strong pivot to high-margin Bio-energy and FMCG.
Financial health	2	↓	D/E 0.27x; CFO/PAT 0.20; FCF -□370 Cr	High growth but severe cash flow crunch and WC stress.
Earnings quality	2	↓	CFO < PAT; 60-yr asset life; NBS estimates	Aggressive accounting and poor profit-to-cash conversion.
Management & governance	3	→	50% Ind. Board; 0% Pledge; RPT ICDs	Compliant but high cash lock-up in non-core ICDs.
Capital allocation & earnings visibility	3	↓	CWIP +3.5x; ROCE 27%; PSRIPL Impairment	Aggressive capex with high execution risk and subsidiary losses.

Business positives (for this company this year) * **Revenue Growth:** Consolidated sales grew by **49.84%** to □35,244 Cr. * **Strategic Pivot:** Ethanol now contributes **22%** of standalone revenue, reducing sugar cyclicality. * **Capacity Expansion:** Distillery capacity is on track to reach **582 KLPD** by April 2024. * **Operational Efficiency:** Sugar recovery in Karnataka reached a high of **11.89%**. * **Debt Profile:** Overall Debt/Equity remains low at **0.27x** despite increased borrowings.

Business negatives / concerns (for this company this year) * **Cash Flow Divergence:** CFO (□**359 Cr**) is only 20% of PAT (□1,828 Cr), a severe red flag. * **Working Capital Stress:** Working capital changes drained □**2,022 Cr**, driven by a 39.4% spike in finished goods inventory. * **Subsidiary Performance:** PSRIPL refinery incurred a □**254 Cr** loss and a □106 Cr impairment. * **Negative Free Cash Flow:** FCF turned negative at **-□370 Cr** due to aggressive capex and poor CFO. * **Accounting Aggression:** Depreciation policy uses **60-year** lives for buildings, potentially overstating PAT.

Overall scorecard summary EID Parry is in a high-growth phase, successfully pivoting toward Bio-energy, but this is currently coming at the cost of financial health and earnings quality. While the balance sheet remains under-leveraged (D/E 0.27x), the massive disconnect between accounting profits and actual cash generation (CFO/PAT 0.20) indicates significant working capital and subsidy-related stress. Governance is stable with zero promoter pledging, but capital allocation is hampered by value erosion in the refinery subsidiary and large cash lock-ups in inter-corporate deposits. The business is on a **stable but high-risk trajectory**, where the success of the distillery expansion must urgently translate into cash flows to justify the current aggressive scaling.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 10/10 — Governance Rating: 5

Part c: investor verdict

Thesis: A high-growth agri-science play transitioning from cyclical sugar to stable bio-energy, currently masked by a severe but likely temporary working capital/subsidy cash crunch. **Overall stance: Watch Rationale:** Strong business pivot and revenue growth are offset by poor earnings quality (CFO/PAT 0.20) and subsidiary losses. **Re-evaluate when:** CFO/PAT ratio exceeds 0.70x for two consecutive quarters. **BULL CASE:** Ethanol capacity doubling leads to FCF generation of >□1,000 Cr and PSRIPL turnaround. **BEAR CASE:** Continued government subsidy delays and sugar price drops lead to a debt spiral to fund working capital. **Key monitorable:** Finished Goods Inventory: □3,007 Cr → Watch for reduction to <□2,200 Cr.