EID Parry (India) Ltd — Aug 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** Strong operational recovery in Sugar and Cogen, coupled with aggressive Distillery capacity expansion, keeps the structural transition thesis intact despite temporary margin pressure from fuel costs and maintenance.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	Standalone Revenue grew 60% YoY; PAT turned positive at □13 Cr vs □33 Cr loss.	□
Earnings Quality	Low (One-off/Accounting driven)	Results impacted by □10.5 Cr one-time stamp duty and notional FX losses in Refinery.	□
Guidance Confidence	Strong	Sankili distillery (120 KLPD) confirmed on track for Q4 FY23.	□
Management Credibility	Strong	Transparent about maintenance-led distillery losses and asset transfer benefits.	□
Business Quality Signal	Improving	Asset relocation from TN to Karnataka/Andhra improving recovery potential.	□
Key Q&A Exchange	Q#4 — Why is Distillery losing money?	Mgmt cited maintenance downtime + high fuel costs; recovery expected in Q2-Q4.	□
The Street's Primary Anxiety	Sustained Nutra stagnation	Management was evasive on the specific timeline for the □500 Cr Nutra revenue target.	□
Capital Cycle Stage	Investment	Massive expansion in distillery capacity (targeting 400 KLPD total).	□
Margin / Return Ratio Trajectory	Improving	Higher power tariffs (□6.93/unit) and sugar realizations (□35.18/kg) lifting floor.	□
Pricing Power	Stable	Sugar prices rising (□35.18 vs □33.75 YoY) but constrained by FRP hikes.	□
FCF Conversion & Quality	Distorted	High working capital intensity in sugar; Refinery debt reduced but inventory persists.	□
Competitive Moat Signals	Stable	Dominant regional player with high ethanol diversion capability.	□
Balance Sheet Strength	Adequate	Short-term debt in refinery reduced; standalone net of cane dues.	□
Working Capital Efficiency	Improving	"Zero cane dues" status as of the call date is a significant liquidity signal.	□
Mgmt Guidance Track Record	Reliable	Project execution (Sankili) and asset sales (Puducherry/Pettaivaithalai) on track.	□
Key Vulnerability / Red Flag	Fuel Inflation	Coal and fuel costs impacting distillery/refinery margins despite high volumes.	□
Management Tone	Confident yet cautious on macro	Optimistic on ethanol/sugar volumes but wary of global price pressure/fuel costs.	□

Key Takeaways:

Positives: * **Operational Scale:** Sugarcane crushing volumes grew 84% YoY (2.69 lakh MT), and Sugar realizations improved to ₹35.18/kg. * **Ethanol Pivot:** On track to reach 400 KLPD (12 Cr liters/annum) by Q4 FY23 with the Sankili project completion; 10% blending achieved nationally, targeting 20%. * **Cogen Windfall:** Power realizations surged to ₹6.93/unit (vs ₹3.34 YoY) due to energy exchange pricing, significantly boosting segment revenue (₹64 Cr vs ₹9 Cr). * **Asset Efficiency:** Relocation of assets from low-recovery Tamil Nadu to high-recovery Karnataka is expected to yield margin benefits from Q3 onwards.

Negatives: * **Cost Headwinds:** High coal prices and fuel costs compressed margins in the Distillery and Refinery segments. * **Nutra Slowdown:** Revenue dropped 35% YoY in Standalone Nutra due to weather and administrative export hurdles; management admits the journey to scale is taking longer than expected. * **One-off Drags:** ₹10.5 Cr stamp duty provision related to 2011-2017 mergers and notional FX losses in the refinery subsidiary masked core profitability. * **Evasive Guidance:** Management avoided committing to a specific timeline for the ₹500 Cr Nutraceutical revenue aspiration, labeling it a "patient game."

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Crushing Vol (Lakh MT)	2.69	↑ 84.2%	Not stated	↑	Volume driven by better cane availability; season extended.
Recovery (%)	9.35%	↓ 23 bps	Not stated	↓	Lower due to early summer heat; Q1 is not representative.
Sugar Realiz. (₹/kg)	35.18	↑ 4.2%	Not stated	↑	Realizations up from ₹33.75 YoY; closing stock valued at ₹31.50.
Ethanol Vol (Lakh L)	114.0	↑ 90.0%	Not stated	↑	Significant diversion to ethanol; total distillery sales 213L L.
Distillery Realiz. (₹/L)	57.82	→ 0.2%	Not stated	→	Flat pricing; awaiting Govt revision following FRP hike.
Revenue (Standalone)	₹722 Cr	↑ 60.4%	↓ 22.0%	↑	Growth driven by volume/realization; QoQ drop due to export timing.
EBITDA (Standalone)	₹11 Cr	↑ 375%	Not stated	↑	Recovery from ₹4 Cr loss; hit by ₹10.5 Cr stamp duty one-off.
PAT (Standalone)	₹13 Cr	↑ 139%	Not stated	↑	Turned around from ₹33 Cr loss; includes asset sale benefits.
Net Debt (Refinery)	₹338 Cr	Not stated	↓	↑	Short-term debt reduced; Long-term debt at ₹200 Cr.
Cane Landed Cost	₹3,221/MT	↑ 3.9%	Not stated	↓	Up from ₹3,100/MT; FRP increase of ₹80-100/MT expected.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin (%)	Trend	vs Co. Avg	Key Development
Sugar	529	↑ 54.7%	Not stated	↑	Inline	Exported 45k MT; Domestic 99k MT.
Cogen	64	↑ 611.1%	Not stated	↑	Outperform	Tariff jump to ₹6.93/unit (exchange-driven).
Distillery	125	↑ 52.4%	Negative	↓	Underperform	Loss due to maintenance downtime + coal prices.
Nutra (Cons)	64	↓ 13.5%	Not stated	↓	Underperform	Weather/export hurdles; "Valensa" inline.
Refinery	764	↑ 247.3%	2.1% (EBITDA)	↑	Inline	EBITDA ₹16 Cr; Notional FX loss led to PBT loss.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Ethanol Capacity	12 Crore liters per year (400 KLPD total).	Needs Sankili to contribute ~3-4 Cr liters in H2 FY23.	On track (Q4 start).	Moderate: Execution delay risk.
Strategy	Nutra Revenue	₹500 Cr aspiration (implied).	Needs >100% growth from current run-rate.	Lagging (YoY decline).	High: Market adoption risk.
Macro	Ethanol Blending	20% by 2024-25.	Industry needs to divert 4.5m tons of sugar next season.	10% achieved.	Low: Govt policy support.
Capex	Sankili Project	Commissioning in Q4 FY23.	N/A	On schedule.	Low.
Strategy	Asset Relocation	Relocation to Karnataka for higher recovery.	Expected to lift standalone recovery >10% in season.	Completed.	Low.
Macro	Export Quotas	Total season volume >10m tons (Industry).	Already past 9m tons; additional volumes sanctioned.	Delivered.	Low.

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	4.0	Pratiksha Daftari / Aequitas	Distillery Margins	Financials	Why is distillery profitability impacted and what are the transfer prices?	Management attributed the loss to maintenance downtime and fuel costs, with molasses transfer prices rising to □8750 (vs □5550). Increased feedstock costs will squeeze distillery margins unless ethanol prices are revised upwards by the government.	None	4.0	Specific but concerning
2	3.5	Akshay / Nirzar Securities	Expenses	Financials	Why did other expenses shoot up from □70 Cr to □127 Cr?	Increase driven by a □10.5 Cr one-off stamp duty, □10 Cr variable freight/ packing costs, and higher coal prices. Standard quarterly run-rate is expected to normalize to □85-90 Cr, reducing the overhead overhang.	None	4.5	Quantified and clear
3	3.0	Akshay / Nirzar Securities	Cogen Sustainability	Business Overview	Is the high Cogen profitability sustainable?	Profitability was boosted by taking advantage of energy exchange prices, but future performance depends on exchange rate volatility. This suggests Cogen outperformance is opportunistic	Specificity on future prices	3.0	Directional

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						rather than a structural shift in tariff agreements.			
4	4.0	Anupam Goswami / B&K Securities	Sugar Recovery	Business Overview	What is the gross recovery outlook following asset transfers to Karnataka?	Recoveries were low in Q1 (summer effect) but asset transfer benefits will materialize from Q3 onwards as the Karnataka season starts. Recovery improvements should drive lower cost per unit of sugar production in H2.	Exact recovery % target	4.0	Directional with evidence
5	3.5	Anupam Goswami / B&K Securities	Refinery Margins	Financials	What changed in the refinery business to post a profit despite high coal costs?	Sourcing raw sugar from India instead of Brazil improved landed cost parity, with spreads around $50/ton. This sourcing agility acts as a hedge against energy cost inflation.	None	4.0	Clear spread quantification
6	4.5	Hitesh Doshi	Nutra Strategy	Strategy	Why is Nutra performance subdued and what are the Flomentum launch costs?	Revenue was hit by weather and export administrative issues, while Flomentum is in an "initial phase" funded by Valensa's internal cash flows. Nutra remains a drag on the consolidated narrative until "medical	Specific Flomentum spend figures	2.5	Vague/ Hedged

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						equity" marketing yields retail scale.			
7	4.0	Bharat Sheth / Quest Investment	Nutra Revenue Target	Strategy	When will the Nutra business hit the ₹500 Cr revenue target?	Management refused to give a specific timeline, citing a "patient game" and focus on building the business model correctly. This evasion signals that the ₹500 Cr target is unlikely in the medium term.	Timeline for revenue target	2.0	Evasive
8	3.5	Bharat Sheth / Quest Investment	Distillery Comparison	Financials	Why are distillery margins lower than North Indian peers (20-40%)?	Differences are due to lower regional recoveries (1% delta) and internal molasses transfer pricing policies. EID's margins are structurally capped compared to UP peers due to geographic recovery ceilings.	None	3.5	Honest on regional limits
9	4.0	Ritwik Sheth / DFC	Refinery FX Losses	Financials	Why was refinery PBT negative despite positive EBITDA?	The ₹6 Cr PBT loss was driven by a non-cash, notional mark-to-market loss on FX covers. Core refinery operations remain EBITDA positive (₹16 Cr), indicating the underlying business is healthier than	None	5.0	Specific and verified

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						the PBT suggests.			

PATTERN FLAGS & SENTIMENT

- **Distillery Anxiety:** Analysts were highly focused on the mismatch between revenue growth and profitability in the distillery segment. Management's defense of "maintenance downtime" and "transfer pricing" was consistent but highlights a vulnerability to fuel costs. This concern will likely resurface if H2 doesn't show a sharp margin bounce-back as the Sankili plant commissions.
- **Nutra Skepticism:** There is growing impatience regarding the Nutraceutical segment's scale. Management’s refusal to provide a timeline for revenue targets suggests a lack of near-term visibility. This is a persistent overhang on the valuation multiple.
- **Refinery Resilience:** Analysts were surprised by the refinery's operational profit amid coal inflation. Management successfully communicated their sourcing advantage (Indian vs. Brazilian raw sugar), which mitigated some skepticism regarding the subsidiary's debt and profitability.

Analyst Sentiment Verdict: The sentiment was **neutral to cautiously positive**. While analysts appreciated the sugar/cogen turnaround, they were skeptical about the Nutra business's trajectory and the distillery segment's immediate margin pressure. Management’s credibility on project execution (Sankili) remains high, but their inability to quantify the Nutra turnaround is the primary friction point.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Nutra Revenue	High growth potential segment.	"Taking more time than envisaged"; refused timeline.	Walk-back on near-term scale expectations.	Moderate: Delay in value-unlock.
Distillery Profit	Better volumes and realization.	Maintenance downtime caused a loss despite top-line growth.	Operational inefficiency masked by top-line growth.	Low: Likely temporary.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.