EID Parry (India) Ltd — Aug 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Miss **One-line:** While the core ethanol pivot remains structurally sound with the Sankili grain distillery coming online, a massive loss in the Refinery subsidiary and persistent stagnation in the Nutraceuticals business are delaying the fundamental re-rating.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss	Standalone loss of □46 Cr vs profit of □13 Cr YoY; Refinery loss surged to □96.5 Cr.	□
Earnings Quality	Low (MTM & Maintenance)	$3.6M MTM loss in refinery; maintenance shutdown and Sudan war impact deferred volumes.	□
Guidance Confidence	Neutral	Distillery expansion on track, but Nutra recovery pushed to H2; FMCG pivot is still in "pilot" phase.	□
Management Credibility	Strong	High transparency regarding refinery disadvantages (East Coast location) and Nutra failures (Valensa/Flomentum).	□
Business Quality Signal	Stable	Core sugar/distillery operations are improving efficiency; asset-light FMCG model is low-risk but unproven.	□
Key Q&A Exchange	Q#10 (Refinery vs Renuka)	Mgmt admitted locational disadvantage on East Coast; seeking international partnerships to fix the model.	□
The Street's Primary Anxiety	Refinery "Stop Loss"	Analysts pressed on when the refinery bleed ends; mgmt cited MTM and one-off external shocks (Sudan).	□
Capital Cycle Stage	Investment	Continued asset allocation toward bioethanol and brand building in FMCG.	□
Margin / Return Ratio Trajectory	Deteriorating	Power realizations dropped (□4.05 vs □6.93); Refinery margins hit by maintenance and spreads.	□
Pricing Power	Stable	Sugar realizations up (□36.30 vs □35.18); Brand "Parry" fetches □2-3 premium over trade.	□
FCF Conversion & Quality	Weak	Negative standalone PAT and high working capital in refinery subsidiary.	□
Competitive Moat Signals	Stable	Strong regional dominance in South India; "Parry" brand equity remains a primary differentiator.	□
Balance Sheet Strength	Adequate	Consolidated debt stable at ~□1,026 Cr; standby liquidity from Murugappa group support.	□
Working Capital Efficiency	Deteriorating	Inventory days likely rising as sugar exports are restricted and refinery volumes deferred.	□
Mgmt Guidance Track Record	Mixed	Distillery execution is reliable; Nutra turnaround and Refinery profitability targets have been missed.	□
Key Vulnerability / Red Flag	Locational Disadvantage	The Kakinada refinery's inability to compete with West Coast peers (Renuka) due to freight and bulk-shipment reliance.	□
Management Tone	Cautious & Reflective	Focused on "learning" from FMCG pilots and "partnering" to fix structural issues in refinery/Nutra.	□

Sentiment Verdict: □Neutral

Key Takeaways:

Positives: * **Distillery Scale-up:** Revenue grew 67% YoY (₹209 Cr vs ₹125 Cr) as the new 120 KLPD Sankili facility commenced grain operations; ethanol sales volumes doubled (222L vs 114L liters). * **Sugar Realizations:** Domestic sugar prices improved to ₹36.30/kg (up 3% YoY), and the company is capturing a ₹2–3/kg premium through its branded portfolio. * **FMCG Ambition:** Management is pivoting from "sweeteners" to "food" (millet, dals, rice) via an asset-light model, leveraging the existing 1.5–2.0 lakh outlet distribution network.

Negatives: * **Refinery Bleed:** The refinery subsidiary posted a catastrophic ₹96.5 Cr PBT loss (vs ₹6.3 Cr loss YoY), driven by the Sudan war disrupting sales, maintenance shutdowns, and a $3.6M MTM hit. * **Nutra Stagnation:** European certification issues and the failure of the "Flomentum" B2C launch in the US led to a 31% YoY drop in consolidated Nutra revenue (₹44 Cr vs ₹64 Cr). * **Cogen Reversal:** Power revenue collapsed to ₹19 Cr (vs ₹64 Cr) as the company chose to sell bagasse in the open market (higher realizations) rather than generate power at lower grid tariffs.

Forward-Looking Watchpoint: The H2 FY24 recovery hinges entirely on the European re-certification for Nutra and the successful onboarding of a global partner for the Refinery business to offset its inherent geographic freight disadvantages.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT not available — numbers from concall.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Crushing Vol (Lakh MT)	4.01	↑ 49.1%	↓ 85.0%	↑	Extended season in AP and early start in TN drove volume.
Recovery (%)	9.05%	↓ 30 bps	↓ 114 bps	↓	Lower recovery due to weather and crushing mix.
Sugar Realization (₹/kg)	36.30	↑ 3.2%	↑ 3.2%	↑	Domestic prices firming; brands fetching ₹2-3 premium.
Ethanol Volume (Lakh L)	222	↑ 94.7%	↑ 45.1%	↑	Driven by new 120 KLPD Sankili dual-feed facility.
Ethanol Realiz. (₹/L)	61.08	↑ 5.6%	↑ 5.6%	↑	Improved mix and realization; awaiting further Govt hikes.
Revenue Standalone (₹ Cr)	698	↓ 2.9%	↓ 13.0%	↓	Impacted by lower sugar export volumes (7k vs 45k MT).
PAT Standalone (₹Cr)	(46)	↓ 453.8%	↓ 116.2%	↓	Impacted by refinery MTM losses and lower power units.
Net Debt Consolidated (₹Cr)	1,026	↓ 0.2%	↓ 0.2%	→	Stable; includes ₹186 Cr standalone long-term debt.
Cogen Power Tariff (₹/unit)	4.05	↓ 41.6%	↓ 41.6%	↓	Sharp drop from last year's energy exchange highs (₹6.93).
Nutra Revenue (Consol ₹Cr)	44	↓ 31.3%	↓ 31.3%	↓	Hit by Euro certification ban and US B2C scale-back.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Sugar	473	↓ 10.1%	Weak	↓	Underperform	Domestic volumes up, but 38k MT export shortfall hit top-line.
Distillery	209	↑ 67.2%	Improving	↑	Outperform	Sankili grain-based operations started; volume doubled YoY.
Cogen	19	↓ 70.3%	Poor	↓	Underperform	Strategic bagasse sale to open market vs power generation.
Nutra (India)	5	↓ 61.5%	Negative	↓	Underperform	Certification issues in Europe halted export momentum.
Refinery (Sub)	473*	↓ 34.0%	Negative	↓	Underperform	□96.5 Cr PBT loss; Sudanese war deferred sales volumes.

**Calculated from sales volume (1.33L MT) and implied pricing; PBT loss clearly stated at 96.52 Cr.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Ethanol Capacity	Commissioning new distillery units to maximize diversion.	Needs H2 to significantly exceed 400L lakh liters to hit annual goals.	On Track	Low
Guidance	Nutra Recovery	Back on track in H2 FY24 following re-certification.	Requires >□150 Cr in H2 to match FY23 performance.	Missed	High
Strategy	FMCG Pivot	Pivot from sweetener-only to kitchen staples (Millet/Dals).	Pilot phase (Chennai only); needs state-wide rollout.	New	Moderate
Strategy	Refinery Model	Onboard international trade house partner for Kakinada.	Needs to conclude partnership within FY24 to stem losses.	Poor	High
Strategy	Valensa (US)	Scale back "Flomentum" to focus on core B2B margins.	Needs Valensa to return to EBITDA breakeven in H2.	Missed	Moderate
Macro	Govt Policy	Expecting upward revision in Ethanol prices vs FRP hike.	Govt fixed FRP at □3,150; Ethanol hike is essential for margins.	In Progress	Moderate

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	Akshay Ajmera / Nirzar Securities	Branded Sugar	Business Overview	"Are we selling our branded sugar at some discount as compared to our competitors and how much is the margin impact?"	Management clarified they sell at a □2-3 premium over trade prices and do not discount. This confirms the brand's pricing power which helps offset cyclical sugar price volatility.	None	5.0	Clear and quantified
1a	3.5	Akshay Ajmera	Power vs Crushing	Financials	"Why did substantial rise in cane crushing not compensate for decrease in power earnings?"	Management explained that while crushing was up, they strategically sold bagasse in the open market for better realizations rather than firing it for lower-tariff power. This indicates an opportunistic shift to maximize by-product value at the expense of segment optics.	Outlook on future power prices	3.5	Directional
2	4.5	Ajit / Individual	FMCG Strategy	Strategy	"How will the expansion into FMCG be funded and whether the new brand will be home-grown or acquired?"	Management indicated expansion is currently in-house and asset-light, but they remain open to inorganic acquisitions and financial partnerships in the future. This signals a pivot toward a less capital-intensive food	Current FMCG margins	2.5	Vague/ Hedged

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						business model to improve long-term ROCE.			
3	4.0	Gautam Dedhia / Nalanda	Refinery Stop-loss	Strategy	"What is the thinking going forward, and when do we have a stop loss for the refinery?"	Management admitted the Sudan war deferred sales and mentioned evaluating international trade partnerships to augment capabilities. This confirms the business cannot thrive independently in its current structure due to locational disadvantages.	Exact stop-loss timeline	3.0	Deflected
4	3.5	Ritvik Sheth / One Up	Food Strategy	Strategy	"What is our strategy to scale up the food company transformation?"	Management highlighted targeting the □8,000 average kitchen bill by moving into categories with low branding saliency (dals, millets). This builds a "distribution-first" thesis where existing sugar reach is used to push higher-margin staples.	Specific capacity targets	3.0	Consistent
5	5.0	Anushri / Alpha Invesco	Refinery Peer Comparison	Financials	"Renuka is making money for the last five to six years in the same business... where are we at a disadvantage?"	Management admitted a locational disadvantage on the East Coast (break-bulk reliance) versus West Coast	None	4.5	Honest/ High Signal

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						competitors (container access). This was a crucial admission of structural headwinds that cannot be fixed without a major strategic partner or logistical overhaul.			
6	3.5	Anushri / Alpha Invesco	Refinery Spreads	Financials	"What would be the white premium spread in this quarter and also what would be our conversion cost per ton?"	Management stated spreads were ~$55 with normalized operating costs around $45-$50. These thin margins leave no room for error, making FX or volume shocks (like Sudan) fatal to quarterly profitability.	None	4.0	Specific

PATTERN FLAGS & SENTIMENT

Theme Cluster 1: The Refinery "Albatross": Analysts were notably aggressive regarding the refinery subsidiary, specifically contrasting EID Parry’s losses with Renuka’s perceived profitability. Management’s response—admitting a structural locational disadvantage on the East Coast—shifted the narrative from "temporary inefficiency" to "structural hurdle." The resolution now depends entirely on a "partnership" model, which remains a live and unresolved overhang.

Theme Cluster 2: The Nutra/FMCG Pivot: There is a clear transition in management's tone from defending the US B2C launch (Flomentum) to cutting losses and pivoting toward domestic food staples (millets, dals). Analysts were skeptical about margins in these new categories. Management remained vague on pilots, but the move to an asset-light model was a relief to the street after years of capital-heavy Nutra investment.

Analyst Sentiment Verdict: Analysts were **skeptical and persistent**, particularly regarding the refinery subsidiary’s recurring losses and the stalled Nutraceuticals business. Management’s credibility was bolstered by their blunt admission of geographic disadvantages in Kakinada, yet the lack of a clear turnaround timeline for Nutra remains a friction point. The single greatest risk remains the refinery's exposure to FX and global trade disruptions while it seeks a partner.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Refinery Profitability	Shutdown was the main drag.	Admitted structural locational disadvantage vs West Coast peers.	Shift from operational to structural concern.	High: Permanent margin cap.
Nutra Growth	Temporary setbacks.	European certification ban is a total block; US B2C model (Flomentum) is being scaled back.	Admits previous US strategy was unsuccessful.	Moderate: Pushes out turnaround.
FMCG Margins	High growth potential.	Refused to comment on pilot margins, calling it a "learning phase."	Visibility on food profitability is zero.	Low: Pilot stage.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter	This Quarter	Direction
Refinery Profitability	Positive EBITDA (□16 Cr)	Massive PBT Loss (□96.5 Cr)	↓
Nutra Strategy	Pursuing US B2C (Flomentum)	Scaling back Flomentum to focus on B2B	↓
Cogen Strategy	Maximizing units for high tariff	Selling Bagasse directly to market	→
Distillery Mix	Heavy Maintenance Downtime	Grain-based Sankili fully operational	↑
FMCG Portfolio	Sweetener-focused	Piloting staples (Rice, Dals, Millets)	↑
Refinery Thesis	Standalone turnaround attempt	Actively seeking Int'l Trade Partner	↓
Sugar Exports	45,000 MT Volume	7,000 MT Volume (Govt restrictions)	↓