EID Parry (India) Ltd — Jun 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (Standalone) / Miss (Consolidated) **One-line:** The long-term ethanol-pivot thesis remains intact with Sankili operational, but management has finally "cleared the decks" with a massive □155 Cr impairment, signaling the historical failure of non-core subsidiary investments.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline (Core)	Standalone FY23 Revenue grew 16% YoY; Ethanol volumes hit 10.4 Cr liters.	□
Earnings Quality	Low (One-off heavy)	PAT severely impacted by □155 Cr impairment and □253 Cr PBT loss in Refinery.	□
Guidance Confidence	Neutral	Distillery expansion (Haliyal/Nellikuppam) on track for Jan/Apr '24.	□
Management Credibility	Mixed	Transparent on impairments, but persistent Refinery losses contradict prior "turnaround" hopes.	□
Business Quality Signal	Bifurcated	Standalone sugar/distillery is a cash cow; Subsidiaries are a capital-incinerator.	□
Key Q&A Exchange	Q#3 & 4 - Refinery	Analysts questioning when the refinery will stop being a drag on the P&L.	□
Street's Primary Anxiety	Refinery Solvency	Concern over the □820 Cr debt in PSRIPL and its impact on consolidated ROCE (negative 94%).	□
Capital Cycle Stage	Investment	Mid-cycle of distillery expansion (□189 Cr spent in FY23; more for FY24).	□
Margin Trajectory	Deteriorating	Standalone EBITDA margins slightly compressed due to fuel/coal inflation.	□
Pricing Power	Stable	Realizations up (Sugar □36/kg; Ethanol □60/L); government-mandated floors provide a safety net.	□
FCF Conversion	Distorted	High working capital in Refinery and capex cycle masking standalone FCF.	□
Competitive Moat	Stable	"Zero cane dues" and Murugappa Group lineage ensure farmer loyalty and low cost of debt.	□
Balance Sheet	Adequate (SA)	Standalone debt low; Consolidated balance sheet burdened by subsidiary debt.	□
Working Capital	Stable	Inventory valued at □33/kg vs realization of □36/kg; healthy spread.	□
Mgmt Track Record	Reliable (Ops)	Operational targets (Sankili commissioning) met on time.	□
Key Vulnerability	Non-core drag	The continued cash burn in Nutra (Valensa) and Refinery spreads.	□
Management Tone	Cautious/ Pragmatic	Confident in core ops but sober regarding subsidiary impairments.	□

Sentiment: □Positive (Core) | □Negative (Subsidiaries) | □Neutral (Overall)

Key Takeaways (Positives & Negatives): * **Positives:** * **Ethanol Pivot Acceleration:** FY23 Ethanol volumes grew 37% YoY (646 LL vs 471 LL). The 120 KLPD Sankili plant is now operational, and another 165 KLPD is coming by FY25. * **Core Profitability:** Standalone EBITDA/MT of cane crush has improved significantly over the 5-year cycle, de-risking the business from cyclical sugar prices. * **Operational Discipline:** Maintained "zero cane dues" status and reduced standalone finance costs to ₹36 Cr (from ₹46 Cr) despite a high-interest rate environment. * **Negatives:** * **Subsidiary "Kitchen Sinking":** A ₹155 Cr impairment in PSRIPL, Algavista (JV), and Alimtec suggests past capital allocation was poor. * **Refinery Black Hole:** PSRIPL reported a staggering ₹253 Cr PBT loss for FY23. Management cited high fuel costs and Forex losses, but the business remains structurally challenged with a negative 94% ROCE. * **Nutra Stagnation:** The Nutraceuticals segment remains loss-making at a consolidated level (₹76 Cr PBT loss) due to B2C marketing burn at Valensa and warehouse fire losses. * **Forward Watchpoint:** Monitoring the commissioning of Haliyal (Jan 24) and Nellikuppam (Apr 24). The thesis hinges on the Standalone entity eventually being valued without the subsidiary "conglomerate discount."

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary; Concall used for commentary and Q4 specific splits.

Metric	FY23 (Full Year)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Crushing Volume (Lakh MT)	51.81	↑ 3.2%	↓ 11.7%*	↑	Growth driven by full-year Karnataka performance; Q4 drop due to early closure.
Recovery (%)	10.62%	→ 0 bps	↑ 19 bps	→	Stable; Q4 saw recovery of 11.51% (YoY 11.32%).
Sugar Realization (₹/kg)	35.97	↑ 4.3%	↑ 1.5%	↑	Prices improved from ₹34.50 YoY; Q4 at ₹36.52.
Ethanol Volume (Lakh L)	646	↑ 37.2%	Not stated	↑	Significant diversion to ethanol to capitalize on EBP opportunity.
Ethanol Realization (₹/L)	60.39	↑ 5.8%	↑ 3.6%	↑	Driven by Govt price hikes and feedstock mix.
Standalone Revenue (₹Cr)	2,895	↑ 16.3%	↓ 12.4%	↑	Realization and ethanol-volume driven growth.
Standalone EBITDA (₹Cr)	527	↑ 7.1%	↑ 5.8%	↑	Offset by higher energy/coal prices.
Standalone PAT (₹ Cr)	197	↓ 30.6%	↓ 63.1%	↓	Impacted heavily by ₹155 Cr impairment.
ROCE (Sugar Segment)	9%	↑ 100 bps	N/A	↑	Improving core asset efficiency.
Refinery ST Debt (₹ Cr)	620.04	↓ 4.4%	↓ 18.5%	↑	Reduced from Q3 spike (₹761 Cr) but remains high.
Net Debt (Standalone)	508	↑ 150.2%	↑ 125.8%	↓	Increased for distillery expansion (Capex: ₹189 Cr).

**QoQ Comparison for crushing is seasonal; drop in Q4 vs Q3 is typical for South India season end.*

2B. SEGMENT BREAKDOWN (Consolidated)

Segment	Revenue (₹ Cr)	YoY Growth	Margin (PBIT)	Trend	vs Co Avg	Key Development
Sugar	1,670	↑ 9.7%	3.5%	↓	Inline	Higher domestic volume (3.67 LMT) vs Exports (1.52 LMT).
Distillery	644	↑ 31.2%	23.3%	↓	Outperform	Vol 1044 LL; Margin hit by molasses transfer pricing.
Cogen	253	↑ 55.2%	(7.1)%	↑	Underperf	Power tariff improved to ₹5.26/unit; recovery phase.
Refinery	2,867	↑ 43.2%	(6.0)%	↓	Underperf	Massive loss (₹172 Cr PBIT) due to fuel/FX/ M2M.
Nutra	259	↓ 6.5%	(29.3)%	↓	Underperf	Burn mode in B2C (Flomentum) and asset impairments.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Distillery Capacity	Total capacity expansion to hit steady state in FY25.	Needs Haliyal (120KLPD) by Jan '24.	Sankili (120KLPD) delivered Jan '23.	Low
Guidance	Distillery Volumes	Ethanol volumes being maximized for EBP.	Needs ~18-19 Cr L (Peak).	FY23 at 10.4 Cr L (on track).	Low
Strategy	Refinery spreads	Spreads expected to stay higher due to robust demand.	Needs White Premium >$100/MT.	Spreads were $43 in FY23 (Narrow).	High
Strategy	Nutra B2C	flomentum ARR target of $1 Mn.	Reached $1 Mn in FY23.	Delivered.	Moderate
Macro	TN Ethanol Policy	Attract ₹5,000 Cr investment in state.	Policy unveiled in 2023.	Policy support available.	Low
Balance	Debt Reduction	Standalone debt management.	LT debt at ₹155 Cr.	Finance cost reduced 22% YoY.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Karan Mehta / Nirzar Sec	Impairment	Financials	"Breakup of expense for each subsidiary and JV? Is there a possibility of these expenses to get reversed?"	Management detailed ₹106 Cr for PSRIPL, ₹23 Cr for Algavista, and ₹26 Cr for Alimtec based on valuer projections. Reversal is unlikely for Alimtec but possible for PSRIPL/ Algavista if cash flows improve. **Implication:** Clears the balance sheet of legacy baggage but confirms capital loss.	None	4.5	Clear and quantified
3	4.0	Karan Mehta / Nirzar Sec	Segment Margins	Financials	"Performance of refinery worsened... operating loss on Nutra... margins in distillery declining sharply. What are reasons and outlook?"	Management blamed high fuel costs for Refinery/ Distillery and "burn mode" marketing + warehouse fire for Nutra. Improved fuel pricing and efficiency are expected to restore margins in FY24. **Implication:** Short-term margin pain is transitory, but structural Nutra burn remains.	None	3.5	Directional
4	4.5			Financials	"Conversion cost has	Management cited falling	None	3.0	Vague

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		Ritwik Sheth / One-Up	Refinery Conversion		spiked... can we expect negative spread to be at least break-even in FY24?"	energy prices and strengthening white premiums as drivers for a potential FY24 turnaround. Break-even is the stated goal for FY24. **Implication:** PSRIPL remains the primary variable for consolidated profit recovery.			
7	3.5	Ritwik Sheth / One-Up	Capital Allocation	Strategy	"What are our thoughts in terms of dividend payout from EID Parry after FY24 capex?"	Management emphasized strengthening the standalone business and P&L first to enable growth. No specific commitment was made on higher payouts despite Coromandel's large dividends. **Implication:** Retained earnings will likely favor growth/ deleveraging over payouts.	Specific %	2.5	Deflected

PATTERN FLAGS & SENTIMENT * **Refinery Exhaustion:** Analysts are visibly tired of the Refinery's negative contribution. Questions focused heavily on conversion costs and the "impairment" logic, seeking a floor to the losses. Management was defensive, relying on macro "white premiums" and fuel cost regressions to promise a turnaround. * **Impairment Skepticism:** The 155 Cr charge was met with detailed scrutiny. Management's response suggests they are taking the pain now to reset expectations, but it highlights a period of poor subsidiary oversight. * **Distillery Optimism vs. Margin Realism:** While the volume growth is praised, analysts flagged the margin compression. Management's explanation of "transfer pricing" (molasses market price) suggests standalone sugar is benefiting at the expense of distillery margins.

Analyst Sentiment Verdict: Skeptical but observant. Analysts are bullish on the ethanol execution (standalone) but treat the consolidated entity with extreme caution due to the "impairment surprise" and Refinery volatility. Management credibility is high on operational delivery (Sankili) but low on non-core investment outcomes.

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3)	This Quarter (Q4)	Direction
Impairment Status	No material impairment mentioned.	□155 Cr impairment taken (PSRIPL/JV/Alimtec).	↓ Deteriorating
Refinery Loss	□53.79 Cr PBT loss (Q3).	□45.32 Cr PBT loss (Q4); □253 Cr for Full Year.	→ Stable (Poor)
Refinery ST Debt	□761 Cr.	□620 Cr.	↑ Improving
Crushing Outlook	Concern over "poaching."	Actual drop in Q4 crushing (22.9 vs 25.9 LMT YoY).	↓ Deteriorating
Ethanol Realization	□61.11/L.	□62.56/L (Q4).	↑ Improving
One-off Costs	"Accident clearance" (Refinery).	"Investment impairment" + "Fire accident" (Nutra).	↓ Deteriorating
Thesis Signal	Ethanol growth starting.	Ethanol scale achieved (10 Cr L); Non-core risk realized.	□Neutral

Investor Notes: * **CFO-to-PAT Divergence:** Consolidated PAT is deeply negative (after minority interest), while Standalone remains cash-generative. The divergence is driven by the □155 Cr non-cash impairment and high working capital in the refinery. * **Forensic Trigger:** The "fire accident" in a third-party warehouse in Florida (Valensa) resulting in product loss adds to the string of "operational accidents" flagged in prior quarters (PSRIPL shipment clearance). Investors must monitor if this suggests systemic laxity in subsidiary insurance/safety protocols. * **Growth Attribution:** Standalone revenue growth (16% FY23) is ~30% volume-driven (Ethanol) and ~70% realization-driven (Sugar/Ethanol prices). * **Thesis Verdict:** Does this quarter change the thesis? **No.** It confirms the "SOP" (Sum of Parts) view: The core sugar-distillery business is performing better than ever, but the "subsidiary discount" is justified until PSRIPL and Nutra prove they can exist without parental lifelines. The impairment is a painful but necessary cleaning of the balance sheet.

END OF ANALYSIS