# EID Parry (India) Ltd — May 2022 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Beat **One-line:** E.I.D. Parry is successfully executing a pivot from a cyclical sugar producer to a diversified bio-energy and retail-branded player, underpinned by a now-deleveraged balance sheet and strategic asset relocation.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|---|---|---|---|
| Beat/Miss vs Guidance | Beat | Record cane crushing (50.21 LMT) and distillery volumes (847 LL) exceeded historical run-rates. | □ |
| Earnings Quality | High (Core driven) | CFO-to-PAT ratio of 3.64x (Standalone) reflects strong operational cash generation and dividend inflows. | □ |
| Guidance Confidence | Strong | Clear roadmap for 11 Cr liters of ethanol in FY23; relocation of assets to Haliyal already yielding results. | □ |
| Management Credibility | Strong | Delivered on the "debt reduction" promise; net debt effectively zero on standalone basis. | □ |
| Business Quality Signal | Improving | Structural shift toward Ethanol (B-heavy/Syrup) and Retail Sugar (22% mix) reduces reliance on cyclical MSP. | □ |
| Key Q&A Exchange | Q# 11 - Capital Allocation | Management clarified that future growth will be funded via internal accruals, targeting high-ROC bio-fuels and retail. | □ |
| The Street's Primary Anxiety | Refinery & Nutra RoCE | Analysts pushed on the low returns of the Refinery (7% ROCE) and Nutra losses; mgmt defended via "strategic context." | □ |
| Capital Cycle Stage | Harvesting / Reinvestment | Harvesting cash from Coromandel dividends/Sugar to reinvest in Distillery and Retail distribution. | □ |
| Margin / Return Trajectory | Improving | Distillery margins remain robust; Sugar PBIT turned positive (□122 Cr) vs loss last year. | □ |
| Pricing Power | Stable | Retail realizations (□36.84/kg) command a □1.60 premium over trade sugar; Ethanol prices are policy-protected. | □ |
| FCF Conversion & Quality | Strong | Standalone OCF of □1,035 Cr allowed for □151 Cr Capex and □495 Cr debt repayment. | □ |
| Competitive Moat Signals | Stable | Massive cane command area and port-based refinery provide logistical moats, though ENA pricing is localized. | □ |
| Balance Sheet Strength | Strong | Standalone debt reduced to □100 Cr (subvented term loans only); CRISIL AA- (Positive). | □ |
| Working Capital Efficiency | Improving | Retail mix growth (to 22%) and export volumes helping manage inventory cycles. | □ |
| Mgmt Guidance Track | Reliable | Successfully completed Haliyal expansion and Bagalkot 60 KLPD commissioning on stated timelines. | □ |
| Key Vulnerability | Input Cost Spikes | Refinery is highly sensitive to coal/fuel costs and "White Premium" spreads. | □ |
| Management Tone | Confident | Focused on structural improvements rather than just riding the sugar cycle. | □ |

**Key Takeaways (Positives & Negatives):**

**Positives:** * **Balance Sheet Transformation:** The company has transitioned to a "zero-debt" mindset on a standalone basis, drastically reducing finance costs from ₹93 Cr to ₹46 Cr. * **Ethanol Pivot:** Distillery is now the primary profit engine (PBIT ₹245 Cr vs Sugar ₹122 Cr), with multi-feed capability (Sankili) de-risking against cane shortages. * **Operational Efficiency:** Relocating Pudukkottai assets to Karnataka (Haliyal) was a masterstroke, tapping into higher recovery (11.1%) and assured cane availability. * **Consumerization:** Retail sugar share hit 22% of domestic mix; the target of 1 lakh outlets by FY25 indicates a serious push for branded premiums.

**Negatives:** * **Nutraceuticals Volatility:** The segment is vulnerable to weather (monsoon impact on harvest), leading to losses in the US B2C venture (Flomentum). * **Refinery Economics:** While profitable this quarter, the 7% ROCE remains the weakest link in the capital allocation chain, sensitive to global energy/coal prices. * **Localized Pricing Pressures:** ENA prices in Tamil Nadu dropped significantly (₹61 to ₹56) due to interstate inflows, impacting distillery realizations in that region.

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## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source.

| Metric | Current Qtr/ FY22 | YoY Change | QoQ Change | Trend | Mgmt Commentary |
|---|---|---|---|---|---|
| Crushing Vol (LMT) | 50.21 | ↑ 26.5% | N/A | ↑ | Driven by Karnataka (Haliyal) capacity expansion and higher registration. |
| Recovery (%) | 10.63% | ↑ 35 bps | N/A | ↑ | Relocation to high-recovery zones (Haliyal) is the primary driver. |
| Sugar Realization (₹/kg) | 34.50 | ↑ 1.2% | N/A | → | Higher realizations from exports and retail offset trade pricing. |
| Ethanol Vol (LL) | 847 | ↑ 42.6% | N/A | ↑ | Includes Bagalkot 60 KLPD contribution for 9 months. |
| Ethanol Realization (₹/L) | 57.88 | ↑ 4.4% | N/A | ↑ | Weighted avg up due to higher mix of B-Heavy and Syrup-based ethanol. |
| Revenue (Standalone) | ₹2,496 Cr | ↑ 23.3% | N/A | ↑ | Driven by record sugar exports (1.7 LMT) and distillery volume growth. |
| EBITDA (Standalone) | ₹492 Cr | ↓ 11.5% | N/A | ↓ | YoY comparison distorted by ₹827 Cr Coromandel stake sale in FY21. |
| PAT (Standalone) | ₹284 Cr | ↓ 67.2% | N/A | ↓ | FY21 PAT (₹865 Cr) included massive one-time investment gains. |
| ROCE (%) | 13.30% | N/A | N/A | ↑ | Consolidated ROCE (ex-Coromandel) is improving as distillery assets sweat. |
| Cash Flow (OCF) | ₹1,035 Cr | N/A | N/A | ↑ | Improved operating cashflows used for debt reduction. |
| Net Debt / (Cash) | ₹100 Cr | ↓ 90.2% | N/A | ↑ | Massive deleveraging from ₹1,018 Cr in FY21. |
| Working Capital | 186 Days | N/A | N/A | → | DIO impacted by seasonal sugar stocks and raw sugar for refinery. |

### 2B. SEGMENT BREAKDOWN (Consolidated - Standalone/Refinery/Nutra)

| Segment | Revenue (□ Cr) | YoY Growth | Margin (PBIT %) | Trend | vs Company Avg | Key Development |
|---|---|---|---|---|---|---|
| Sugar | □1,840 | ↑ 22.6% | 6.6% | ↑ | Below Avg | Positive PBIT (□122 Cr) vs loss (□29 Cr) last year. |
| Distillery | □490 | ↑ 48.9% | 50.0% | ↑ | Way Above Avg | The "Crown Jewel"; volumes reached 8.47 Cr liters. |
| Cogeneration | □93 | ↑ 4.5% | 46.2% | ↑ | Above Avg | Realized higher power tariffs (□4.35 vs □4.15). |
| Refinery | □2,002 | ↓ 10.5% | 1.8% | ↑ | Below Avg | $269 Mn revenue; EBIT $4.7 Mn. 7% ROCE. |
| Nutraceuticals | □277 | ↑ 8.6% | (2.9)% | ↓ | Below Avg | Losses widened due to US B2C marketing (Flomentum). |

## 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Mathematical Feasibility | Historical Delivery | Risk Flag |
|---|---|---|---|---|---|
| Guidance | Ethanol Volume | 11 Cr Liters in FY23 | Needs ~2.75 Cr Liters/qtr. FY22 avg was 2.1 Cr/qtr. Feasible with Sankili addition. | Delivered Bagalkot expansion. | Medium |
| Guidance | Cane Growth | 8-10% increase in FY23 | Expected ~55 LMT crushing. Historically achieved 50 LMT. | Met FY22 volume targets. | Low (Monsoon) |
| Guidance | Retail Outlets | 1 Lakh by FY25 | Needs to add ~23,000 outlets p.a. from current 30,000 direct base. | Growing 183% since FY19. | Medium |
| Strategy | Distillery Mix | Multi-feed (Sankili) to de-risk seasonal cane | 120 KLPD multi-feed expected by Dec 2022. | Asset relocation completed. | Low |
| Strategy | Asset Monetization | Sell Pettavaithalai land | Post-machinery sale (6-9 months). | Pudukkottai machines sold. | Medium (Timeline) |
| Balance | Debt | Maintain "0-Debt" status | Standalone net debt already minimal. | Drastically reduced debt. | Low |

## 4. ANALYST Q&A

| Q# | Relevance | Analyst / Firm | Theme Cluster | Category | Underlying Concern | Management Response & Investment Implication | Evaded / Not Addressed | Credibility | Verdict |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 4.0 | Akshay Ajmera / Nizara | Asset Monetization | Capex and Allocation | Why was Pettavaithalai sold instead of moved to Bagalkot? | Management explained that high competition for cane in Bagalkot made asset relocation there unfeasible compared to the Haliyal move. This implies a disciplined capital allocation approach that prioritizes assured raw material availability over simple capacity growth. | None | 5.0 | Specific and Strategic |
| 3 | 4.5 | Bhavin Sheth / Enam | Refinery Debt | Financials | What is the specific debt and inventory situation at the refinery? | Management clarified that the Refinery has □648 Cr in working capital debt and □200 Cr in term debt, backed by 1.7 LMT of inventory. This clarifies that the refinery's leverage is mostly operational (inventory-linked) rather than structural. | None | 5.0 | Quantified |
| 5 | 3.5 | Gautam Dedhia / Nalanda | Refinery Breakeven | Financials | Can the refinery breakeven with coal | Management stated that while spreads are $50-60, | None | 4.0 | Directional |

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|---|---|---|---|---|---|---|---|---|---|
| | | | | | prices at $300-400? | sourcing from India and stabilizing coal prices makes breakeven or slight profit possible. This highlights the thin margins and high sensitivity of the refinery segment to energy inputs. | | | |
| 7 | 4.0 | Gautam Dedhia / Nalanda | Retail Strategy | Business Overview | How many outlets are targeted and what is the current reach? | Management indicated a current direct reach of 30,000 outlets (50,000 indirect) with a goal of 1 lakh+ by FY25. Successful execution here is the key to decoupling sugar realizations from the bulk MSP cycle. | None | 4.0 | Target Given |
| 9 | 4.5 | Ritwik / One-Up | Distillery Margins | Financials | Will new grain-based capacity (Sankili) have higher or lower margins? | Management noted distillery margins are a function of molasses/ grain cost vs. OMC pricing, but higher-sized plants offer better cost absorption. This suggests that the distillery | None | 3.0 | Vague but Consistent |

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|---|---|---|---|---|---|---|---|---|---|
| | | | | | | segment will remain the primary margin driver even as feedstock shifts to grain. | | | |
| 11 | 5.0 | Dhruv Maheshwari / Premji Invest | Capital Allocation | Capex and Allocation | What is the medium-term ROCE target and capital deployment strategy? | Management expressed confidence in reaching "best-in-class industry standards" via internal accruals, focusing on bio-fuels and retail distribution. This signals a transition away from being a "holding company" reliant on Coromandel to a self-sustaining operational powerhouse. | Specific ROCE number | 3.5 | Qualitative |
| 12 | 3.5 | Dipesh Sancheti | Ethanol Feedstock | Management Commentary | Are you looking at rice-based ethanol exclusively? | Management clarified they prefer multi-feedstock (molasses + grain) to mitigate risk, rather than exclusive grain plants. This de-risks the earnings profile against both sugar cycles and crop failures. | None | 4.0 | Clear Strategy |
| 15 | 4.0 | | | Financials | | | None | 4.0 | |

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|---|---|---|---|---|---|---|---|---|---|
| | | Rajesh Majumdar / B&K | Sugar Profitability | | Why didn't sugar profits rise more despite volume and price increases? | Management attributed the lag to the withdrawal of the TN transport subsidy and the fact that by-product benefits (molasses/bagasse) from Q4 crushing will flow into Q1 FY23. This points to a potential "earnings catch-up" in the next quarter. | | | Logical Explanation |

**PATTERN FLAGS & SENTIMENT**

- **Theme Cluster 1: Refinery Viability:** Analysts are clearly concerned about the low ROCE and high working capital intensity of the Refinery segment. Management's posture was defensive but realistic, emphasizing that the refinery serves a strategic purpose and can manage breakeven even in high-cost environments. This concern will likely persist until a structural exit or significant margin expansion is demonstrated.
- **Theme Cluster 2: Pivot to Consumer/Bio-Fuel:** Questions on retail outlets and ethanol feedstocks show analyst interest in the quality of the "new" EID Parry. Management was most confident here, providing clear targets (11 Cr liters, 1 lakh outlets). This is the key "re-rating" narrative.
- **Theme Cluster 3: Cost Pressures:** Concerns regarding the withdrawal of subsidies and falling ENA prices in TN were raised. Management was transparent about these headwinds, suggesting a focus on "internal cost efficiencies" to offset them.

**Analyst Sentiment Verdict:** Analysts appear cautiously optimistic about the core sugar-to-ethanol transformation but remain skeptical about the non-core refinery and nutraceutical segments. The credibility of the management is high due to the successful debt reduction. The greatest unresolved risk is the volatility of the Refinery's ROCE, which continues to drag down consolidated returns.

## 5. WHAT CHANGED vs PRIOR QUARTER

*First entry — no prior quarter to compare.*

| What Changed | Prior Quarter | This Quarter | Direction |
|---|---|---|---|
| Standalone Debt | Not available | Reduced to □100 Cr | ↑ Improving |
| Cane Crushing | Not available | Record 50.21 LMT | ↑ Improving |
| Distillery Volume | Not available | 8.47 Cr Liters | ↑ Improving |
| Sugar PBIT | Not available | Positive □122 Cr | ↑ Improving |
| TN Transport Subsidy | Not available | Withdrawn | ↓ Deteriorating |
| Retail Mix | Not available | 22% of domestic sales | ↑ Improving |
| Finance Cost | Not available | Reduced by ~50% YoY | ↑ Improving |