

Balrampur Chini (BALCHI)

CMP: ₹ 114

Target: ₹ 170 (49%)

Target Period: 12 months

BUY

April 15, 2020

Covid-19 lockdown to have limited impact on financials

With the 40-day lockdown in the country due to the Covid-19 outbreak, most industries would be impacted negatively by production halts, demand destruction & supply chain disruptions. However, we believe the impact on sugar industry would be limited to small decline in sugar consumption & lower ethanol offtake by OMCs in FY21E. Sugar production continues even in these challenging times with production likely to be complete by early May. Sugar production is likely to be around 27 million tonnes (MT) against earlier estimate of 26 MT due to a marginal change in Maharashtra production and lower diversion towards *Gur & Khandsari*.

Sugar consumption to dip in lockdown period

The negative impact on demand front may be 1-1.5 MT (permanent consumption loss) with lower sale of carbonates drinks & ice creams in the lockdown period. Further, India's exports in current season may be 4 MT vs. earlier expectation of 5 MT mainly due a significant dip in global sugar prices from 15 cents/lb in February 2020 to 10 cents/lb currently. This would keep sugar inventory high at 11 MT on September 2020. This, along with expected higher production of 30 MT in next crushing season would need continuance of export incentives, higher diversion towards B heavy ethanol.

Ethanol sales decline on lower fuel demand

Considering significant reduction in petrol consumption in lockdown period, OMC depots are full. Hence, there is no storage capacity for ethanol, which has resulted in 30% lower ethanol offtake in this period. Though, we believe OMCs would increase ethanol offtake post lockdown period considering blending levels are still very low at 5-6%, but there remains uncertainty on duration of lockdown & decline in fuel demand and hence we believe OMCs may not be able to take the entire contracted quantities in FY21E.

Lower sugar volumes to be compensated by ethanol volumes

We expect BCL to see 8% lower sugar volume in FY21E with flat sugar realisation of ₹ 32.5/kg. With new distillery commissioning in January 2020, it would see 25% increase in distillery volumes in FY21 along with 3.5% increase (due to higher volumes of B heavy ethanol) in distillery realisation. We do not see any change in FY20 numbers as the lockdown was enforced only in last week of FY20 but we cut our FY21 earnings estimates by 23% largely due to expected lower sugar volumes with reduction in bulk sugar demand & lower offtake of ethanol by OMCs during lockdown.

Valuation & Outlook

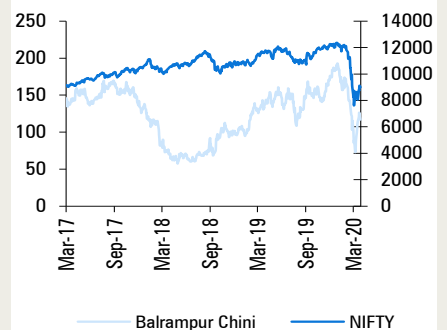
We believe Balrampur would generate strong cash flow over the next two years, which would lead to a significant reduction in working capital debt requirement. Moreover, it has kept payment to shareholders (dividend, buy backs) at 40% of earnings. Currently, the stock is trading at 1.1x & 1x FY20E & FY21E P/BV, respectively. We value the stock at 1.5x FY21 PBV with a revised target price of ₹ 170 (earlier target ₹ 220) and maintain **BUY** rating.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	2,858.5
Total Debt (FY19)	1,673.9
Cash and Investments (FY19)	4.9
EV	4,527.5
52 week H/L (₹)	195 / 107
Equity capital	22.8
Face value (₹)	1.0

Price Chart



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Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Total Operating Income	3460.1	4342.5	4285.8	4583.5	4489.5	2.3%
EBITDA	869.0	451.7	689.1	709.1	617.4	-5.3%
EBITDA Margin %	25.1	10.4	16.1	15.5	13.8	
Net Profit	592.8	231.7	575.8	450.3	387.5	-18.0%
Adjusted PAT	592.8	231.7	473.3	450.3	387.5	-9.5%
EPS (₹)	25.22	10.14	25.21	20.47	17.61	
P/E	4.6	11.5	4.6	5.7	6.6	
RoNW %	38.0	14.3	27.2	19.3	15.6	
RoCE (%)	23.1	14.3	16.3	17.0	14.1	

Source: Company, ICICI Direct Research

Exhibit 1: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% change	Old	New	% change	
Net sales	4567.5	4583.5	0.3	4,835.5	4,489.5	-7.2	Change in FY21 sugar sales volume estimate due to loss of bulk sugar consumption during lockdown period
EBITDA	709.4	709.1	0.0	761.7	617.4	-18.9	
EBITDA Margin (%)	15.5	15.5	-3 bps	15.8	13.8	-205 bps	
PAT	449.1	450.3	0.3	501.5	387.5	-22.7	Revise earnings downwards with slight reduction in sugar realisation & lower distillery volume impacted by lockdown
EPS (₹)	20.42	20.47	0.2	22.79	17.61	-22.7	

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

	Current				Earlier			Comments
	FY17	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Sugar Sold (in tonne)	840,323	1,042,190	1,153,000	1,178,366	1,084,097	1,178,295	1,135,186	Changed our sugar volume estimates for FY21
Sugar Price (₹ per tonne)	35,900	35,560	29,553	33,190	32,500	33,190	33,500	Changed our sugar realisation estimates for FY21 Cut our distillery volume estimate by 10% mainly due to lower lifting by OMCs during lockdown period
Distillery volume	68,835	78,900	110,890	120,600	150,800	118,800	166,400	
Distillery price (₹ per KL)	47,098	41,683	41,290	46,380	48,010	44,802	48,010	
Power Units sold	51.0	56.8	66.4	55.8	60.7	55.8	60.7	
Price per unit (₹ per units)	4.8	4.8	4.9	3.1	3.2	3.1	3.2	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement		₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E	
Total Operating Income	4,342.5	4,285.8	4,583.5	4,489.5	
Growth (%)	25.5	-1.3	6.9	-2.0	
Raw Material Expenses	3,474.6	3,057.0	3,323.3	3,364.8	
Employee Expenses	204.0	230.5	251.9	246.9	
Administrative Expenses	18.4	69.0	0.0	0.0	
Excise Duty	58.2	0.0	0.0	0.0	
Other expenses	193.8	240.2	299.2	260.4	
Total Operating Expenditure	3,890.9	3,596.7	3,874.3	3,872.1	
EBITDA	451.7	689.1	709.1	617.4	
Growth (%)	-48.0	52.6	2.9	-12.9	
Depreciation	95.2	95.9	104.7	103.0	
Interest	52.0	40.9	62.0	57.6	
Other Income	30.3	42.7	24.1	21.7	
PBT	304.5	552.3	542.5	456.8	
Total Tax	113.5	26.0	121.0	95.7	
PAT	231.7	575.8	450.3	387.5	
Adjusted PAT	231.7	473.3	450.3	387.5	
Growth (%)	-60.9	104.3	-4.9	-13.9	
Adjusted EPS (₹)	10.14	20.72	20.47	17.61	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E	
Profit/Loss after Tax	334.7	595.0	450.3	387.5	
Add: Depreciation	95.2	95.9	104.7	103.0	
Add: Interest	52.0	40.9	0.0	0.0	
(Inc)/dec in Current Assets	370.5	-925.5	61.3	-36.4	
Inc/(dec) in Current Liabilities	452.9	-182.7	250.6	-91.3	
CF from operating activities	1,179.8	-523.0	866.9	362.9	
(Inc)/dec in Investments	0.0	0.0	15.0	-30.0	
(Inc)/dec in Fixed Assets	-132.1	-125.7	-200.0	-50.0	
Others	-27.2	-33.5	2.8	0.0	
CF from investing activities	-159.3	-159.2	-182.2	-80.0	
Issue/(Buy back) of Equity	-102.8	0.0	-0.8	0.0	
Inc/(dec) in loan funds	-792.5	790.2	-428.0	-58.0	
Dividend paid & dividend tax	-70.7	-68.8	-238.7	-225.4	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	-54.1	-39.5	0.0	0.0	
CF from financing activities	-1,020.1	681.9	-667.5	-283.4	
Net Cash flow	0.4	-0.3	17.1	-0.5	
Opening Cash	2.0	2.5	2.1	19.3	
Cash change due to asset held for sale tra	0.0	0.0	0.0	0.0	
Cash with bank	6.3	2.8	0.0	0.0	
Closing Cash	8.7	4.9	19.3	18.7	

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet		₹ crore			
	FY18	FY19	FY20E	FY21E	
Liabilities					
Equity Capital	22.8	22.8	22.0	22.0	
Reserve and Surplus	1,594.2	2,094.9	2,306.5	2,468.7	
Total Shareholders funds	1,617.1	2,117.8	2,328.5	2,490.7	
Total Debt	876.2	1,673.9	1,245.9	1,187.9	
Long Term Provisions	4.3	5.3	3.3	1.3	
Other Non-current Liabilities	196.0	115.3	116.3	117.3	
Total Liabilities	2,693.6	3,912.3	3,694.1	3,797.2	
Assets					
Gross Block	1,743.1	1,811.0	2,011.0	2,061.0	
Less: Acc Depreciation	299.5	390.9	495.6	598.7	
Net Block	1,443.6	1,420.0	1,515.3	1,462.3	
Capital WIP	11.3	45.8	45.8	45.8	
Intangible assets	2.0	1.5	1.5	1.5	
Non Current Investments	122.1	165.8	170.8	220.8	
Other non-current assets	55.1	86.0	66.0	46.0	
Current Assets					
Inventory	1,802.2	2,315.9	2,240.8	2,307.1	
Debtors	182.2	450.0	483.8	473.9	
Cash	8.7	4.9	19.3	18.7	
Loans & Advances	0.1	0.0	0.0	0.0	
Other Current Assets	72.2	212.2	192.2	172.2	
Current Liabilities					
Creditors	785.3	618.5	691.4	563.3	
Provisions	3.7	5.7	5.7	5.7	
Other CL	217.1	165.6	344.4	382.1	
Net Current Assets	1,059.4	2,193.2	1,894.6	2,020.8	
Total Assets	2,693.6	3,912.3	3,694.1	3,797.2	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios		₹ crore			
	FY18	FY19	FY20E	FY21E	
Per share data (₹)					
EPS	10.1	25.2	20.5	17.6	
Cash EPS	14.3	29.4	25.2	22.3	
BV	70.8	92.7	105.8	113.2	
DPS	3.1	3.0	10.8	10.2	
Cash Per Share	13.1	17.1	22.5	27.2	
Operating Ratios (%)					
EBITDA Margin	10.4	16.1	15.5	13.8	
PBT / Net Sales	7.7	13.9	12.4	10.7	
PAT Margin	5.3	13.4	9.8	8.6	
Inventory days	151.5	197.2	178.4	187.6	
Debtor days	15.3	38.3	38.5	38.5	
Creditor days	66.0	52.7	55.1	45.8	
Return Ratios (%)					
RoE	14.3	27.2	19.3	15.6	
RoCE	14.3	16.3	17.0	14.1	
Valuation Ratios (x)					
P/E	11.5	4.6	5.7	6.6	
EV / EBITDA	7.7	6.2	5.3	6.0	
EV / Net Sales	0.8	1.0	0.8	0.8	
Market Cap / Sales	0.6	0.6	0.6	0.6	
Price to Book Value	1.7	1.3	1.1	1.0	
Solvency Ratios					
Debt/EBITDA	1.9	2.4	1.8	1.9	
Debt / Equity	0.5	0.8	0.5	0.5	
Current Ratio	2.5	4.4	3.7	4.1	
Quick Ratio	0.3	1.0	0.9	0.9	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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