

Splendid cash flow generation...

Balrampur Chini reported strong Q4FY20 results with 31.1% growth in revenues led by 40% growth in sugar sales & 53.2% growth in distillery sales. The higher growth in sugar sales was led by 19.4% jump in sugar volumes aided by ~1.7 lakh tonnes (lt) of sugar exports during the quarter. Domestic sugar realisation was marginally up 2.4%. The growth in distillery sales was led by 34.9% higher volumes led by commissioning of new 160 KLD distillery in January 2020. Distillery realisation was also up 15.8% aided by higher proportion of B heavy ethanol. However, power sales were down 22.9% on account of reduced power tariff by UPERC in July 2019. This led to the 6.6% decline in operating profit. The company has been able to reduce its sugar inventory by 39,000 tonnes in FY20. This along with strong earnings led to the operating cash flow generation of ₹ 850 crore. The company reduced its working capital debt by ₹ 336 crore.

Distillery revenues to aid earnings

With the commissioning of new 160 KLD distillery, it has been able to sell ~12 crore litre in FY20. We believe with 300-350 days of distillery operations, Balrampur would be able to produce 15.3 crore litre in FY21 & 17.9 crore litre in FY22E. With higher proportion of B heavy ethanol production, distillery realisation is likely to increase 8.4% to ₹ 50/litre in FY21E. Further, it would be sacrificing ~1.0 lt of sugar in the process to produce B heavy ethanol. This would result in liquidation of excess inventory. We expect distillery revenues to grow at a CAGR of 28.1% during FY20-22E to 908 crore.

Inventory liquidation through exports, B heavy

With lower sugar production in Maharashtra & Karnataka, UP sugar mills have received higher domestic sales quota. Balrampur has received average domestic sale quota of 97000 tonnes in Q1FY21 which is 20,000 tonnes higher than average of FY20. The company has been able to reduce its sugar inventory by 39,000 tonnes in FY20. With the expectation of higher domestic quota, continuation of export subsidy & significant sugarcane diversion towards B heavy ethanol, we expect the company would be able to liquidate 1.15 lakh tonnes of sugar by FY21. We expect operating cash flow generation of ₹ 660 crore & ₹ 670 crore in FY21E & FY22E respectively.

Valuation & Outlook

Balrampur Chini is the most efficient company in sugar industry with optimum distillery & power capacities, low working capital debt requirement & strong cash flows. Given the sustainable earnings & cash flow generation, we believe working capital debt to further come down by ~₹ 560 crore in next two years. The company has been continuously paying out 35-40% through dividend & buybacks. With no further capex requirement, the pay-out can also increase in future. We value the stock 1.4x FY21E price to book with target price of ₹ 176 / share and maintain our **BUY** recommendation.



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	2,860.0
Total Debt (FY20)	1,399.0
Cash and Investments (FY20)	4.7
EV	4,254.3
52 week H/L (₹)	195 / 69
Equity capital	22.8
Face value (₹)	1.0

Key Highlights

- Sugar sales volume increased by 19.4% to 4.5 lakh tonnes during the quarter
- Distillery volumes increased by 34.9% to 3.4 crore litres in Q4FY20 whereas distillery realisation also increased by 15.8% aided by higher contribution of B heavy ethanol
- Maintain BUY recommendation on the stock with the revised target price of ₹ 176 per share

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	4342.5	4285.8	4741.3	5129.6	4903.0	1.7%
EBITDA	451.7	689.1	682.0	773.4	819.1	9.6%
EBITDA Margin %	10.4	16.1	14.4	15.1	16.7	
Net Profit	231.7	575.8	519.4	506.0	550.3	2.9%
Adjusted PAT	231.7	1.5	519.4	506.0	550.3	2.9%
EPS (₹)	10.14	25.21	23.61	24.10	27.51	
P/E	12.8	5.2	5.5	5.4	4.7	
RoNW %	14.3	27.2	21.5	19.1	19.2	
RoCE (%)	14.3	16.3	16.1	18.5	19.7	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	1,740.0	1,327.3	31.1	1,195.8	45.5	Net sales increased by 31.1% on the back of 1.7 lakh tonnes of exports during the quarter.
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	1,311.0	901.4	45.4	943.4	39.0	
Employee Expense	72.8	67.3	8.1	65.9	10.4	
Other operating Expenses	114.9	100.3	14.6	76.2	50.8	
EBITDA	241.3	258.4	-6.6	110.2	119.0	
EBITDA Margin (%)	13.9	19.5	-560 bps	9.2	465 bps	Operating margins were impacted by lower power tariffs revised downwards earlier in July 2019
Depreciation	27.4	23.6	16.1	25.0	9.5	
Interest	17.3	13.8	25.9	7.6	129.2	
Other Income	26.6	7.7	245.0	6.8	289.6	
PBT	223.2	228.8	-2.4	84.5	164.2	
Tax Outgo	-14.9	-57.0	-73.8	15.2	-198.2	
PAT	241.4	283.5	-14.8	72.5	233.0	Net profit was down by 14.8% mainly due to higher tax reversal in the base quarter.
Key Metrics						
Sugar sales volume (in lakh tonne)	4.5	3.8	19.4	3.2	40.7	The growth in sugar sales due to higher exports during the quarter.
Sugar realisation (₹ per kg)	32.2	31.5	2.4	33.3	-3.3	Average domestic prices were up during the quarter
Distillery volumes (in crore litre)	3.4	2.5	34.9	1.9	76.2	The growth in sales due to commissioning of 160 KLD distillery in Jan 2020
Distillery realisation (₹ per litre)	50.0	43.2	15.8	43.5	15.0	Distillery realisation was higher on account of higher proportion of B heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E		% change	FY22E		Comments
	Old	New		New		
Net sales	4489.5	5129.6	14.3	4,903.0		We are changing our estimate factoring in continuance of sugar export subsidy for next crushing season. We are introducing FY22 numbers
EBITDA	617.4	773.4	25.3	819.1		
EBITDA Margin (%)	13.8	15.1	132 bps	16.7		We are changing our earlier sugar price estimates as impact of lockdown doesn't seem to be severe for the industry
PAT	387.5	506.0	30.6	550.3		
EPS (₹)	17.6	24.1	36.8	27.5		

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current							Comments
	FY17	FY18	FY19	FY20E	FY21E	FY22E	FY21E	
Sugar Sold (in tonne)	840,323	1,042,190	1,153,000	1,205,300	1,268,000	1,134,600	1,084,097	We are factoring in sugar exports for next crushing season as well
Sugar Price (₹ per tonne)	35,900	35,560	29,553	32,910	33,000	33,500	32,500	Domestic sugar realisation is expected to remain ~₹ 33/ kg in FY21E
Distillery volume	68,835	78,900	110,890	119,320	153,400	179,400	150,800	
Distillery price (₹ per KL)	47,098	41,683	41,290	46,380	50,256	50,606	48,010	We are changing our estimate of distillery realisation factoring in higher proportion of B
Power Units sold	51.0	56.8	66.4	52.6	53.9	54.8	60.7	
Price per unit (₹ per units)	4.8	4.8	4.9	3.1	3.1	3.2	3.2	

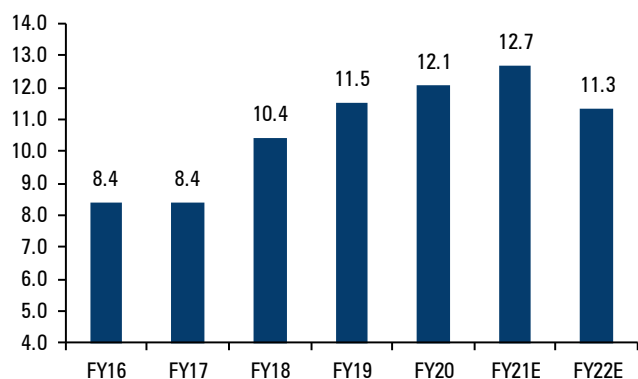
Source: Company, ICICI Direct Research

Conference call Highlights

- Q4 Revenue increased by 31.1% to ₹ 1740 crore on the back of 40% growth in sugar & 53.2% growth in distillery segment. Sugar sales growth was led by ~1.7 lakh tonnes of sugar exports during the quarter. The growth in distillery revenues was on account of new 160 KLD capacity addition in January 2020
- Power revenues were down by 22.9% on account of reduced power tariff by UPERC in July 2019. Power volumes were also come down from 44 crore units to 38.9 crore units during the quarter as company prefer to sell bagasse which is fetching better realisation
- Sugarcane crushing in FY20 come down by 7.6% due to late start of crushing in the current season. However, for the season crushing remains at the similar levels. Recovery rate in FY20 was 11.44% as against 11.58% in FY19. The decline in recovery rate is mainly due to diversion towards B heavy ethanol. On a like to like basis, recovery rate has improved to 11.93% (up by 35 bps)
- Sugar inventory were down by 39,000 in FY20 mainly due to higher exports & sugarcane diversion towards B heavy ethanol. The company received 3.14 lakh tonnes of export quota in the current crushing season, which has been exported by April 2020
- Distillery volumes increased by 7.5% to 11.93 crore litre in FY20 on account of commissioning of new 160 KLD distillery in January 2020. Out of the 11.93 crore litres, 8.36 crore litres of ethanol has been produced through C heavy molasses, 2.56 crore litre through B heavy molasses & 1 crore litre ENA for country liquor
- The management indicated that it would produce 18 crore litres of ethanol/ENA in next crushing season. Out of this, 13 crore litres would be B heavy ethanol, 3 crore would be C heavy ethanol & 2 crore litres is likely to be ENA for country liquor (which is a regulatory requirement)
- The company has started producing Hand sanitizers in March 2020 and it is evaluating the opportunity in this space
- Power volumes in FY20 was down to 52.6 crore units as against 66.4 crore units in the corresponding quarter. Power tariff was down from ₹ 4.94 /unit to ₹ 3.06 / unit. The company prefer to sell bagasse as the prices have been more remunerative.
- The industry expect a hike in sugar MSP soon. Moreover, there is also possibility of hike in sugarcane prices before the start of new crushing season. The management also expect the continuation of export subsidy for the next crushing season
- The long term debt for the company stands at ₹445 crore at the subsidised interest rates. Working capital debt reduced by ₹ 336 crore and stands at ₹ 1058 crore
- The company announced a buyback of 1 crore share at ₹ 180 / share
- Sugar production during the current season was 27 million tonnes. 5.1 million tonnes of sugar for exports have already been contracted. With the consumption of 25 million tonnes and expected exports of 5.5 million tonnes, sugar inventory at the end of September 2020 is likely to be 11.5 million tonnes
- Sugar production in next crushing season is likely to be 31-31.5 million tonnes with Maharashtra & Karnataka acreage has been significantly higher compared to the current season
- Sugarcane arrears in UP has been ₹ 15000 crore, out of this ₹10,000- ₹ 12,000 crore would be cleared by September 2020

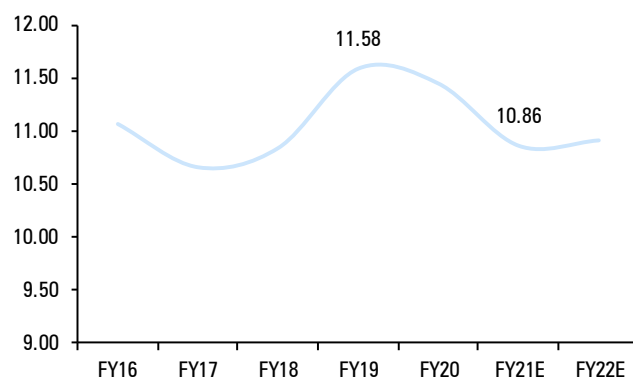
Key Metrics

Exhibit 4: Sugar Sales Volume (in lakh tonne)



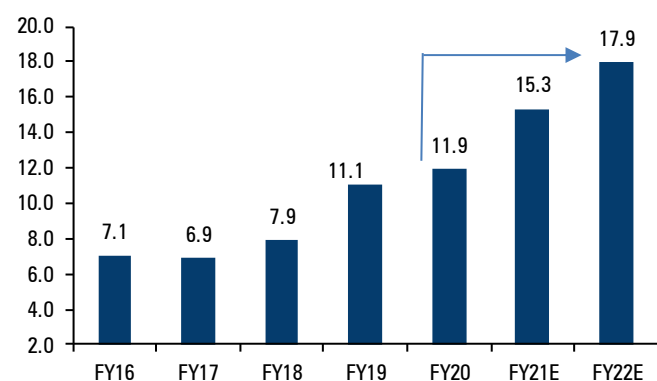
Source: ICICI Direct Research, Company

Exhibit 5: Sugar recovery rate (%)



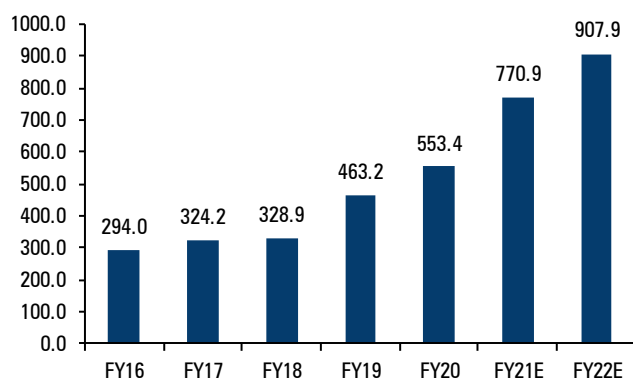
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol Volumes (in crore litre)



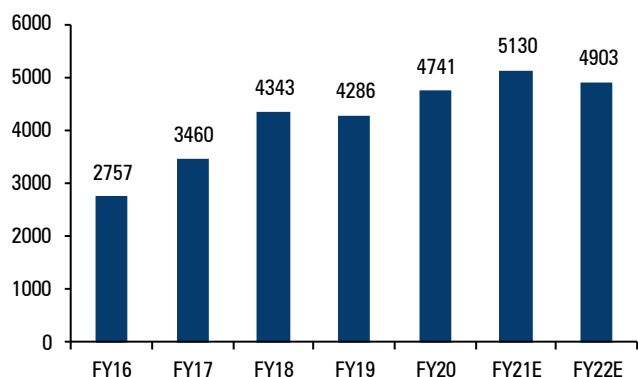
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



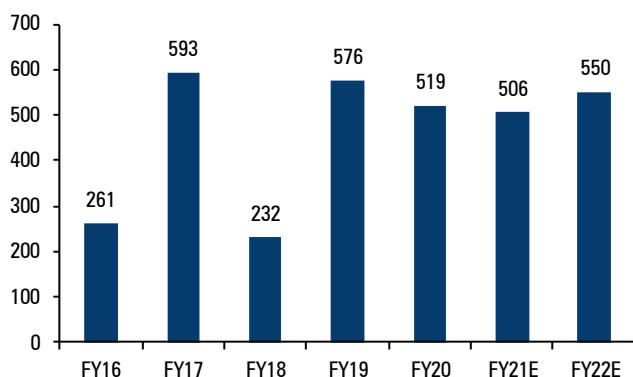
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Adjusted PAT trend (₹ crore)



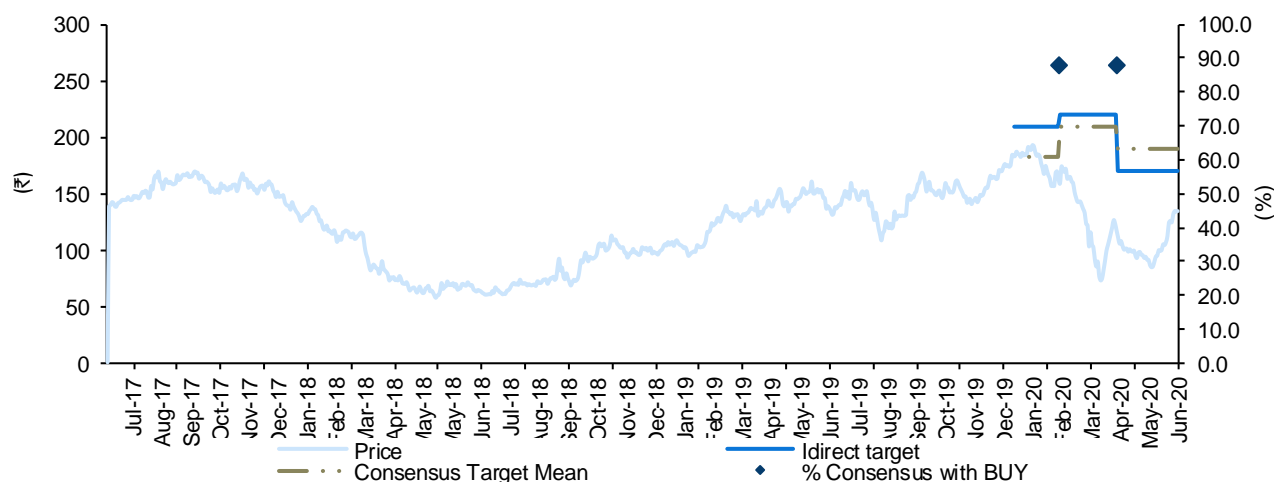
Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	4285.8	-1.3	24.9	145.6	5.2	6.4	27.2	16.3
FY20	4741.3	10.6	23.6	-5.2	5.5	6.2	21.5	16.1
FY21E	5129.6	8.2	24.1	2.1	5.4	5.1	19.1	18.5
FY22E	4903.0	-4.4	27.5	14.2	4.7	4.5	19.2	19.7

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Saraogi Vivek	31-Mar-20	16.3	35.9	0.0
2	Saraogi Sumedha	31-Mar-20	10.5	23.0	0.0
3	Aadi Financial Advis	23-May-19	4.9	10.7	-0.8
4	Reliance Capital Tru	31-Mar-20	4.1	9.1	9.1
5	L&T Mutual Fund	31-May-20	3.8	8.3	0.0
6	Saraogi Kamal Nayan	30-Dec-19	3.2	7.1	0.0
7	Meenakshi Mercantile	31-Mar-20	3.1	6.8	0.0
8	Udaipur Cotton Mills	31-Mar-20	2.7	5.9	0.0
9	Dimensional Fund Adv	30-Apr-20	2.6	5.8	-0.2
10	Vanguard Group	31-May-20	2.2	4.8	1.4

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	41.0	41.1	41.1	41.1	41.1
FII	20.6	26.8	26.4	24.8	22.6
DII	7.8	7.7	10.3	11.6	12.8
Others	30.7	24.4	22.2	22.4	23.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	4,285.8	4,741.3	5,129.6	4,903.0
Growth (%)	-1.3	10.6	8.2	-4.4
Raw Material Expenses	3,057.0	3,501.5	3,799.7	3,544.5
Employee Expenses	230.5	254.0	274.4	279.5
Administrative Expenses	69.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	240.2	303.8	282.1	259.9
Total Operating Expenditure	3,596.7	4,059.3	4,356.2	4,083.9
EBITDA	689.1	682.0	773.4	819.1
Growth (%)	52.6	-1.0	13.4	5.9
Depreciation	95.9	101.4	108.3	111.3
Interest	40.9	64.2	53.5	41.2
Other Income	42.7	43.9	39.5	35.5
PBT	552.3	516.4	611.6	666.7
Total Tax	26.0	48.7	153.0	161.5
PAT	575.8	519.4	506.0	550.3
Adjusted PAT	575.8	519.4	506.0	550.3
Growth (%)	148.5	-9.8	-2.6	8.7
Adjusted EPS (₹)	24.9	23.6	24.1	27.5

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	595.0	560.3	506.0	550.3
Add: Depreciation	95.9	101.4	108.3	111.3
Add: Interest	40.9	64.2	0.0	0.0
(Inc)/dec in Current Assets	-925.5	117.1	23.6	-72.2
Inc/(dec) in Current Liabilities	-182.7	121.1	24.0	82.2
CF from operating activities	-523.0	849.6	661.9	671.5
(Inc)/dec in Investments	0.0	-68.8	-30.0	-25.0
(Inc)/dec in Fixed Assets	-125.7	-241.9	-50.0	-60.0
Others	-33.5	6.0	3.2	0.0
CF from investing activities	-159.2	-304.7	-76.8	-85.0
Issue/(Buy back) of Equity	0.0	-149.3	-200.0	-210.0
Inc/(dec) in loan funds	790.2	-265.8	-298.0	-258.0
Dividend paid & dividend tax	-68.8	-66.3	-75.9	-120.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-39.5	-64.1	0.0	0.0
CF from financing activities	681.9	-545.5	-573.9	-588.6
Net Cash flow	-0.3	-0.6	11.2	-2.0
Opening Cash	2.5	2.1	1.5	12.7
Cash change due to asset held for sa	0.0	0.0	0.0	0.0
Cash with bank	2.8	3.2	0.0	0.0
Closing Cash	4.9	4.7	12.7	10.7

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	22.8	22.0	21.0	20.0
Reserve and Surplus	2,094.9	2,393.7	2,624.8	2,845.5
Total Shareholders funds	2,117.8	2,415.7	2,645.8	2,865.5
Total Debt	1,673.9	1,399.0	1,101.0	843.0
Long Term Provisions	5.3	6.7	4.7	4.7
Other Non-current Liabilities	115.3	52.5	53.5	54.5
Total Liabilities	3,912.3	3,873.9	3,805.0	3,767.7
Assets				
Gross Block	1,811.0	2,115.5	2,165.5	2,225.5
Less: Acc Depreciation	390.9	492.3	600.6	711.9
Net Block	1,420.0	1,623.2	1,564.9	1,513.6
Capital WIP	45.8	12.4	12.4	12.4
Intangible assets	1.5	0.9	0.9	0.9
Non Current Investments	165.8	238.7	268.7	293.7
Other non-current assets	86.0	15.3	15.3	15.3
Current Assets				
Inventory	2,315.9	2,295.0	1,994.8	2,111.0
Debtors	450.0	244.9	541.5	517.5
Cash	4.9	4.7	12.7	10.7
Loans & Advances	0.0	0.0	0.0	0.0
Other Current Assets	212.2	371.8	351.8	331.8
Current Liabilities				
Creditors	618.5	678.0	578.0	600.0
Provisions	5.7	20.2	20.2	20.2
Other CL	165.6	234.8	359.8	419.0
Net Current Assets	2,193.2	1,983.4	1,942.8	1,931.8
Total Assets	3,912.3	3,873.9	3,805.0	3,767.7

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	25.2	23.6	24.1	27.5
Cash EPS	29.4	28.2	29.3	33.1
BV	92.7	109.8	126.0	143.3
DPS	3.0	3.0	3.6	6.0
Cash Per Share	17.1	22.4	28.6	35.6
Operating Ratios (%)				
EBITDA Margin	16.1	14.4	15.1	16.7
PBT / Net Sales	13.9	11.8	12.7	14.3
PAT Margin	13.4	11.0	9.9	11.2
Inventory days	197.2	176.7	141.9	157.2
Debtor days	38.3	18.9	38.5	38.5
Creditor days	52.7	52.2	41.1	44.7
Return Ratios (%)				
RoE	27.2	21.5	19.1	19.2
RoCE	16.3	16.1	18.5	19.7
Valuation Ratios (x)				
P/E	5.2	5.5	5.4	4.7
EV / EBITDA	6.4	6.2	5.1	4.5
EV / Net Sales	1.0	0.9	0.8	0.7
Market Cap / Sales	0.7	0.6	0.6	0.6
Price to Book Value	1.4	1.2	1.1	1.0
Solvency Ratios				
Debt/EBITDA	2.4	2.1	1.4	1.0
Debt / Equity	0.8	0.6	0.4	0.3
Current Ratio	4.4	3.8	4.0	3.8
Quick Ratio	1.0	0.8	1.2	1.1

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E
Balrampur Chini (BALCHI)	130	176	Buy	2,860	23.6	24.1	27.5	5.5	5.4	4.7	6.2	5.1	4.5	1.2	1.1	1.0	16.1	18.5	19.7
Dhampur Sugar (DHASUG)	127	155	Buy	844	32.5	37.4	39.2	3.9	3.4	3.2	6.7	5.2	4.4	0.6	0.5	0.5	10.4	12.9	13.3
Dwarkesh sugar (Dwasug)	24	38	Buy	459	3.9	7.0	7.1	6.2	3.5	3.5	8.0	4.2	4.1	0.9	0.8	0.7	9.0	16.8	15.9
Triveni Engineering (TRIENG)	55	82	Buy	1,351	13.5	15.4	16.4	4.0	3.5	3.3	4.9	4.4	4.1	1.0	0.8	0.7	17.6	18.1	17.7
Dalmia Bharat Sugar (DALSUG)	108	150	Buy	873	23.9	25.0	26.9	4.5	4.3	4.0	7.6	7.4	6.1	0.6	0.5	0.5	11.8	11.1	11.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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