

Balrampur Chini (BALCHI)

CMP: ₹ 327

Target: ₹ 500 (53%)

Target Period: 12 months

BUY

November 9, 2021

Higher sugar prices to offset lower production impact

About the stock: Balrampur Chini (BCML) is the second largest sugar company with sugar crushing capacity of 76000 TCD, distillery capacity of 520 KLD & co-generation capacity of 91 MW. It is undertaking a distillery capex of 530 KLD and modernisation, de-bottlenecking of its sugarcane crushing capacity at multiple plants.

- The company would be able to increase distillery volumes to 35 crore litre in FY24 from 16 crore litre in FY21. Moreover, the modernisation plan would result in higher sugarcane crushing, better recoveries

Q2FY22 Results: BCML reported decent results in Q2FY22.

- Sales were down 5.9% YoY, due to lower domestic sugar sales quota
- EBITDA was at ₹ 134.8 crore, up 5.6% YoY, with margins at 11.1%
- Consequent PAT was at ₹ 83.3 crore (up 6.3 % YoY)

What should investors do? BCML's share price has gone up 2.8x in the last five years (from ₹ 116 in November 2016 to ₹ 326 in November 2021).

- We expect 2.2x increase in distillery volumes to boost earnings with CAGR of 20.8% during FY21-24E
- We continue to maintain our BUY rating on the stock

Target Price and Valuation: We value the stock at ₹ 500, valuing the business at 15x FY23 PE

Key triggers for future price performance:

- With distillery capex, BCML would be able to increase its ethanol volumes 2.2x to 35 crore litre by FY24. Distillery sales is estimated to grow at 34% CAGR to ₹ 1971.3 crore by FY24E, which would be 33% of total revenues
- It is undertaking modernisation & de-bottlenecking at some plants. This would lead to higher sugarcane crushing, better recoveries by FY24. We expect 7% revenue CAGR in FY21-24E
- The company is introducing newer sugarcane variety in its catchment areas, which would reduce the dependence on Co-0238

Alternate Stock Idea: We also like Dwarikesh Sugar in our sugar coverage.

- The company is one of the most efficient companies with highest sugar recovery & abundant sugarcane availability. It is increasing its distillery capacity to 3x in the next three years
- We value the stock at ₹ 110/share with BUY recommendation



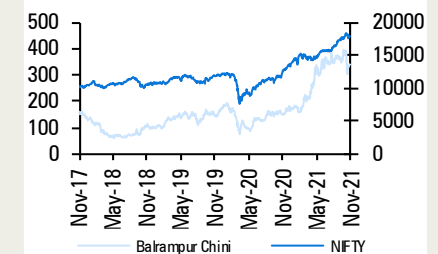
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	6,867.0
Total Debt (FY21)	1,134.6
Cash and Investments (FY21)	2.8
EV	7,998.8
52 week H/L (₹)	398 / 148
Equity capital	21.0
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	41.2	41.2	41.2	41.4
FII	20.1	21.6	20.8	20.9
DII	14.0	15.1	16.2	15.2
Others	24.7	22.1	21.8	22.5

Price Chart



Recent event & key risks

- New sugarcane variety would account for 40% of crushing in next one year
- Key Risk:** (i) Any delay in distillery capacity expansion (ii) Significant decline in sugar recoveries

Research Analyst

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Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR (FY16 to FY21)	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	4741.3	4811.7	11.8	4678.4	4901.9	5895.2	7.0%
EBITDA	682.0	713.8	11.7	755.5	947.6	1265.8	21.0%
EBITDA Margin %	14.4	14.8		16.1	19.3	21.5	
Net Profit	519.4	479.8	36.8	524.8	649.0	846.0	20.8%
EPS (₹)	23.6	22.8		25.7	33.4	46.0	26.2%
P/E	13.9	14.3		12.7	9.8	7.1	
RoNW %	21.5	18.3		18.2	20.2	23.0	
RoCE (%)	16.1	16.4		18.24	20.53	25.23	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q2FY22 Results: Improving sugar realisation to aid profits

- Consolidated revenues saw a de-growth of 5.9% with marginal dip in sugar & distillery sales. Sugar sales were down 4% mainly due to lower domestic sales quota compared to base quarter
- The company sold 2.7 lakh tonnes (lt) (12.7% lower) of domestic sugar sale quota against 3.1 lt in the corresponding quarter. However, sugar prices started moving upwards from August 2021, which resulted in higher sugar realisation for the company. Average sugar realisation was higher by 4.8% to ₹ 34.5/kg for the company with the substantial reduction in sugar inventories in the last three years
- The company is holding 1.89 lt of sugar valued at ₹ 33.01/kg. The inventory valuation was higher due to the negative operating leverage given the company experienced lower sugarcane production in its catchment area due to red rot in 2020-21 sugar season
- Distillery segment sales were also down 3.7% mainly due to lower distillery volumes given lower molasses availability. Distillery sales volumes were down 17.4% to 4.6 crore litre. However, distillery realisation was up by 15.9% to ₹ 52.9 /litre mainly due to higher proportion of B-heavy ethanol
- Out of 4.6 crore litre of ethanol, B-heavy ethanol was 81%, C-heavy was 7.6%, rest was ENA for levy country liquor requirement. Transfer price for C-heavy molasses, B-heavy molasses was ₹ 3.5/litre, ₹ 7/litre, respectively
- Power sales were minuscule at 0.7 crore units against 1.32 crore units given lack of availability of bagasse. Transfer price for bagasse was ₹ 1.4 /kg
- Operating profit grew 5.6% with higher sugar realisation & higher valuation of existing inventories. Interest cost further reduced from ₹ 9 crore in corresponding quarter to ₹ 6.2 crore in Q2FY22 with reduction in debt levels. Net profit witnessed growth of 6.3% to ₹ 83.3 crore
- Long term debt for the company came down to ₹ 316 crore in September 2022 against ₹ 363 crore in September 2021. Working capital debt remains nil given sugar mills liquidate most of the inventory by the end of Q2
- The company has completed the buyback of 59.6 lakh shares at an average price of ₹ 361.1 per share for a total outlay of ₹ 215.2 crore
- The company would be crushing higher sugarcane in 2021-22 sugar season compared to last year. However, the impact of unseasonal rains of sugarcane yields & sugar recoveries are difficult to access as of now
- The company is undertaking ~₹ 1000 crore of capex for the greenfield & brownfield distillery expansion and for modernisation & setting up of refinery at various plants. The expansion of Gularia distillery would be completed by December 2021 while expansion of Balrampur and Maizapur facility would be completed by November 2022
- Sugar production in the country is likely to be 30.5 million tonnes (MT) after the 3.4 MT equivalent diversion towards ethanol. With the increased mobility after the two consecutive years of restricted consumption, sugar demand is likely to increase to 27 MT. The industry would be able to export 5.5 MT of sugar with remunerative global sugar prices. This would lead to further reduction in sugar inventories to 6.2 MT by September 2022
- Current domestic sugar prices are hovering ~₹ 37/kg and with expected further reduction in inventory levels, prices would remain firm in next one year

- The country has achieved ethanol blending (with petrol) levels of 7.8%. Total requirement of ethanol/ENA/rectified spirit would reach 1500 crore litre by 2025 to achieve 20% blending levels. Out of this, 850 crore litre would be sugar (molasses, juice) based ethanol & 650 crore litre would be grain based ethanol. This would lead to the sugar equivalent diversion of 6 MT by 2025
- Ethanol tender & pricing is expected to be announced soon. With the increase in FRP by ₹ 5/quintal, the proportionate increase in B-heavy & sugarcane juice ethanol price is expected
- The company is in the process of changing sugarcane variety in its catchment area. The newer variety of CO-0118 along with some other sugarcane varieties would reach 40% in the company's catchment area in next one year
- With the revival in global sugar consumption and reduction in Brazil's production, global sugar prices are expected to remain firm at ~20 cents per lb. The Indian millers would get the opportunity to export 5-6 MT in the next one years (2 MT is already contracted)

Exhibit 1: Peer Comparison

Sector / Company	CMP		TP	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)			
	(₹)	(₹)			Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E
Balrampur Chini (BALCHI)	327	500	Buy	6867	-3.2	12.6	30.0	37.4	14.8	16.1	19.3	21.5	14.3	12.7	9.8	7.1	2.6	2.4	2.1	1.9	16.4	18.2	20.5	25.2
Dalmia Bharat Sugar (DALSUG)	401	610	Buy	3248	39.9	18.2	11.8	18.5	17.6	19.1	19.6	19.3	12.0	10.2	9.1	7.7	1.5	1.5	1.3	1.2	13.3	14.2	15.3	16.3
Triveni Engineering (TRIENG)	201	270	Buy	4858	-9.9	45.0	21.9	17.8	11.9	12.8	14.5	15.1	16.5	11.4	9.3	7.9	2.9	2.5	2.1	1.7	19.4	19.2	22.4	23.7
Dwarikesh sugar (DWASUG)	75	110	Buy	1406	24.5	57.3	14.6	50.7	10.9	12.4	14.7	19.2	15.4	9.8	8.5	5.7	2.4	2.0	1.7	1.4	14.4	20.0	20.7	28.5

Source: Company, ICICI Direct Research

The sugar industry has benefited from aggressive exports & diversion of sugarcane towards ethanol in last three years. This has resulted in industry wide sugar inventories coming down from 14.5 MT to 8.2 MT. This, in turn, moved domestic sugar prices northwards. The current sugar prices are hovering ~ ₹ 37 / kg (up from ₹ 32.5 in June 2021). With expected further reduction in sugar inventories due to continuous exports (favourable global prices) & sugarcane diversion towards ethanol, domestic sugar prices are likely to remain firm. We believe domestic sugar prices would not fall below ₹ 35 /kg even in peak crushing season. BCML has been impacted by decline in sugarcane production in its catchment area due to red rot last year, which has increased its cost of production for the company. We believe sugar production would continue to remain impacted due to unseasonal rains in the current season as well. However, it would be higher compared to extremely low production of last year. The company is working on changing the sugarcane variety in its catchment areas, which would keep the higher yields & recovery intact in the longer run. BCML continues to remain best in the industry with strong balance sheet & higher shareholder's pay-out (dividend & buybacks). With increase ethanol capacities & stable sugar prices, we remain positive on the industry as well as on the company over the longer period of time. We maintain our BUY recommendation with a target price of ₹ 500 / share (earlier ₹ 515).

Exhibit 2: Variance Analysis

	Q2FY22	Q2FY21	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	1,213.8	1,289.8	-5.9	1,140.4	6.4	Net sales de-grew mainly on account of lower sugar sales volume given the company received lower domestic sales quota
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	931.9	1,028.7	-9.4	852.0	9.4	
Employee Expense	70.7	64.8	9.2	65.6	7.8	
Other operating Expenses	76.3	68.6	11.3	88.8	-14.0	
EBITDA	134.8	127.7	5.6	134.0	0.6	Operating profit increased by 5.6% aided by higher sugar realisation, higher proportion of B-heavy ethanol & increased inventory costs
EBITDA Margin (%)	11.1	9.9	120 bps	11.8	-64 bps	
Depreciation	28.2	28.2	0.0	29.3	-3.9	
Interest	6.2	9.0	-31.0	13.1	-52.5	
Other Income	4.6	4.6	0.0	5.2	-12.7	
PBT	105.0	95.1	10.4	96.8	8.4	
Tax Outgo	23.7	21.2	12.2	25.0	-5.0	
PAT	83.3	78.3	6.3	76.9	8.2	Net profit increased by 6.3% driven by operating profit
Key Metrics						
Sugar sales volume (in lakh tonne)	2.7	3.1	-12.7	2.4	11.3	Lower domestic sugar sales quota
Domestic Sugar realisation (₹ per kg)	34.5	33.0	4.8	33.2	3.9	Sugar realisation improved given sugar prices have moved up considerably from August onwards
Distillery volumes (in crore litre)	4.6	5.6	-17.4	4.8	-4.4	Distillery volumes were adversely impacted by lower sugarcane crushing in 2021-21 season
Distillery realisation (₹ per litre)	52.9	45.6	15.9	53.7	-1.5	Distillery realisation was up due to higher proportion of B-Heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	%change	Old	New	%change	Old	New	% change	
Net sales	4695.8	4,678.4	-0.4	5,375.4	4,901.9	-8.8	6,314.2	5,895.2	-6.6	We have changed our revenue estimates for FY23E & FY24E due to adverse impact of unseasonal rains on sugarcane availability
EBITDA	761.1	755.5	-0.7	966.5	947.6	-2.0	1,180.2	1,265.8	7.2	However, impact on operating profit would not be severe given increasing sugar prices. We have changed our inventory cost valuation number upwards with increase in sugarcane costs
EBITDA Margin (%)	16.2	16.1	-6 bps	18.0	19.3	135 bps	18.7	21.5	278 bps	
PAT	544.1	524.8	-3.5	676.6	649.0	-4.1	815.5	846.0	3.7	We revise our FY24 number upwards with change in sugar realisation estimate upwards
EPS (₹)	26.5	25.7	-2.9	34.7	33.4	-3.6	44.1	46.0	4.2	

Source: ICICI Direct Research

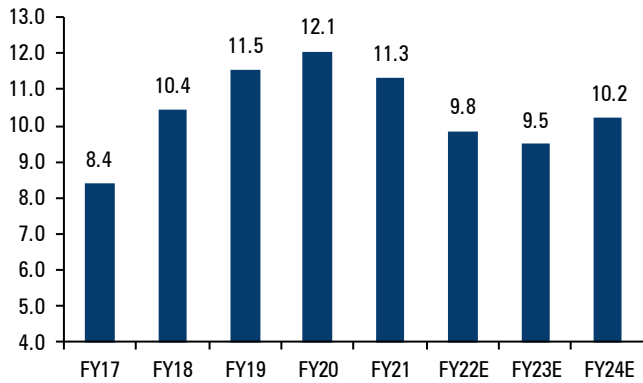
Exhibit 4: Assumptions

	Current		Earlier						Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Sugar Sold (in tonne)	1,205,300	1,132,600	984,000	948,000	1,020,000	984,000	1,080,000	1,140,000	Lower sugar production in 2020-21 & expected dismal recovery in 2021-22 would impact sugar sales volumes
Sugar Price (₹ per tonne)	27,689	32,350	35,000	35,500	36,000	34,000	35,000	35,500	Given sugar inventories have come down significantly, we revise our sugar realisation estimates upwards
Distillery volume	119,320	165,204	165,880	231,000	346,500	180,180	235,200	351,750	Lower availability of molasses to impact volumes
Distillery price (₹ per KL)	45,701	48,350	54,152	55,777	56,892	56,086	56,603	57,057	Revising our distillery realisation estimates downward
Power Units sold	52.6	42.6	51.1	51.1	51.1	51.1	54.5	52.3	
Price per unit (₹ per units)	3.1	3.2	3.3	3.4	3.4	3.3	3.4	3.4	

Source: ICICI Direct Research

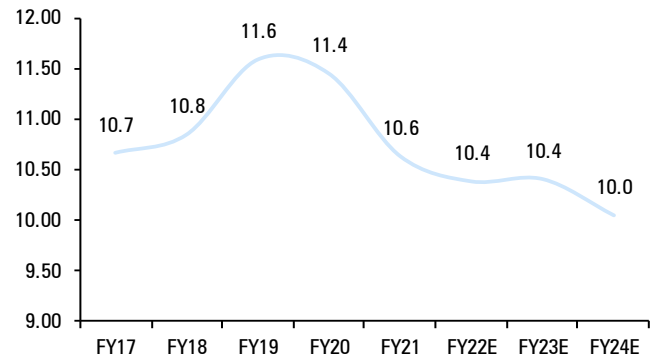
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



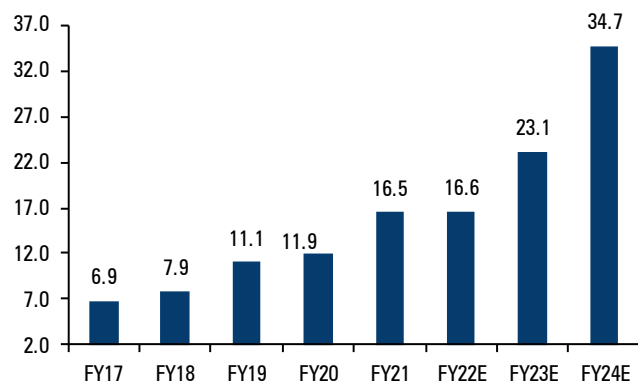
Source: ICICI Direct Research, Company

Exhibit 6: Reduction in sugar recovery rate after higher proportion of sugarcane diversion towards B-heavy ethanol



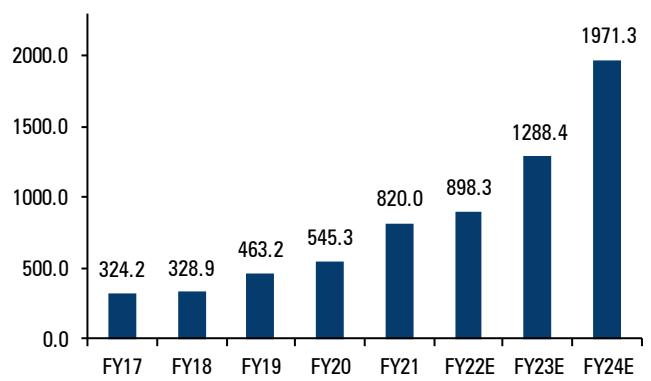
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



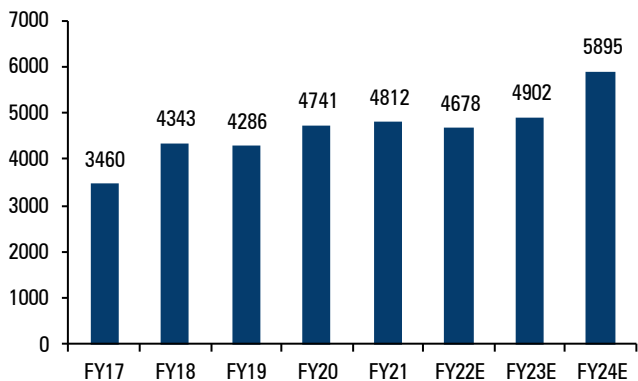
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



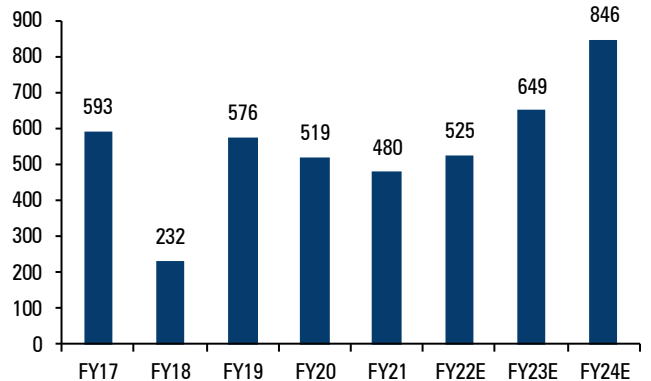
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Adjusted PAT trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	4811.7	1.5	22.8	-3.2	14.3	11.2	18.3	16.4
FY22E	4678.4	-2.8	25.7	12.6	12.7	10.1	18.2	18.2
FY23E	4901.9	4.8	33.4	30.0	10.0	8.1	20.2	20.5
FY24E	5895.2	20.3	46.0	37.4	7.5	6.0	23.0	25.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Total Operating Income	4,811.7	4,678.4	4,901.9	5,895.2
Growth (%)	1.5	-2.8	4.8	20.3
Raw Material Expenses	3,456.0	3,305.3	3,328.1	3,955.6
Employee Expenses	281.7	290.1	307.5	326.0
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	360.1	327.5	318.6	347.8
Total Operating Expenditure	4,097.8	3,922.9	3,954.3	4,629.4
EBITDA	713.8	755.5	947.6	1,265.8
Growth (%)	4.7	5.8	25.4	33.6
Depreciation	111.9	101.1	126.1	162.6
Interest	39.3	29.0	40.6	35.0
Other Income	26.9	28.3	31.1	29.5
PBT	562.7	625.3	780.9	1,068.2
Total Tax	129.4	150.3	186.8	276.6
PAT	479.8	524.8	649.0	846.0
Adjusted PAT	479.8	524.8	649.0	846.0
Growth (%)	-7.6	9.4	23.7	30.4
Adjusted EPS (₹)	22.8	25.7	33.4	46.0

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	589.6	524.8	649.0	846.0
Add: Depreciation	111.9	101.1	126.1	162.6
Add: Interest	39.3	0.0	0.0	0.0
(Inc)/dec in Current Assets	106.2	70.8	305.6	-443.5
Inc/(dec) in Current Liabilities	-140.1	100.5	-13.3	78.5
CF from operating activiti	649.0	797.3	1,067.3	643.5
(Inc)/dec in Investments	15.7	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-97.8	-150.0	-800.0	-100.0
Others	0.9	2.4	0.0	0.0
CF from investing activiti	-81.1	-172.6	-825.0	-125.0
Issue/(Buy back) of Equity	-223.2	-238.0	-200.0	-225.0
Inc/(dec) in loan funds	-251.1	-360.0	80.7	-130.0
Dividend paid & dividend tax	-52.5	-61.2	-119.4	-155.2
Inc/(dec) in Sec. premium	0.0	43.9	0.0	0.0
Others	-42.1	0.0	0.0	0.0
CF from financing activiti	-568.9	-615.3	-238.7	-510.2
Net Cash flow	-1.0	9.3	3.6	8.3
Opening Cash	1.5	0.4	9.8	13.3
Cash change due to asset HFS	0.0	0.0	0.0	0.0
Cash with bank	0.0	0.0	0.0	0.0
Closing Cash	0.4	9.8	13.3	21.6

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet ₹ crore

	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	21.0	20.4	19.9	19.4
Reserve and Surplus	2,598.1	2,868.2	3,198.3	3,664.5
Total Shareholders funds	2,619.1	2,888.6	3,218.2	3,683.9
Total Debt	1,134.6	774.6	855.3	725.3
Long Term Provisions	8.2	8.2	8.2	8.2
Other Non-current Liabilities	71.2	72.2	73.2	74.2
Total Liabilities	3,833.2	3,743.7	4,154.9	4,491.7
Assets				
Gross Block	2,202.0	2,352.0	3,152.0	3,252.0
Less: Acc Depreciation	604.2	705.4	831.4	994.0
Net Block	1,597.8	1,646.6	2,320.5	2,257.9
Capital WIP	14.5	14.5	14.5	14.5
Intangible assets	0.8	0.8	0.8	0.8
Non Current Investments	249.2	274.2	299.2	324.2
Other non-current assets	17.3	17.3	17.3	17.3
Current Assets				
Inventory	2,378.5	2,313.2	2,015.2	2,423.6
Debtors	245.5	259.9	272.3	327.5
Cash	2.8	9.8	13.3	21.6
Loans & Advances	0.0	0.0	0.0	0.0
Other Current Assets	127.7	107.7	87.7	67.7
Current Liabilities				
Creditors	596.4	590.0	564.8	598.2
Provisions	5.4	5.4	5.4	5.4
Other CL	199.0	304.9	315.8	359.9
Net Current Assets	1,953.6	1,790.3	1,502.6	1,876.9
Total Assets	3,833.2	3,743.7	4,154.9	4,491.7

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	22.8	25.7	33.4	46.0
Cash EPS	28.2	30.7	39.9	54.8
BV	124.7	141.6	161.7	189.8
DPS	2.5	3.0	6.0	8.0
Cash Per Share	28.8	34.6	41.8	51.2
Operating Ratios (%)				
EBITDA Margin	14.8	16.1	19.3	21.5
PBT / Net Sales	12.3	14.0	16.6	18.6
PAT Margin	10.0	11.2	13.2	14.4
Inventory days	180.4	180.5	150.1	150.1
Debtor days	18.6	20.3	20.3	20.3
Creditor days	45.2	46.0	42.1	37.0
Return Ratios (%)				
RoE	18.3	18.2	20.2	23.0
RoCE	16.4	18.2	20.5	25.2
Valuation Ratios (x)				
P/E	14.3	12.7	9.8	7.1
EV / EBITDA	11.2	10.1	8.1	6.0
EV / Net Sales	1.7	1.6	1.6	1.3
Market Cap / Sales	1.4	1.5	1.4	1.2
Price to Book Value	2.6	2.4	2.1	1.9
Solvency Ratios				
Debt/EBITDA	1.6	1.0	0.9	0.6
Debt / Equity	0.4	0.3	0.3	0.2
Current Ratio	4.3	3.9	3.6	4.1
Quick Ratio	0.6	0.5	0.5	0.6

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP	TP	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	327	500	Buy	6,867	22.8	25.7	33.4	46.0	14.3	12.7	9.8	7.1	11.2	10.1	8.1	6.0	2.6	2.4	2.1	1.9	16.4	18.2	20.5	25.2
Dalmia Bharat Sugar (DALSUG)	401	610	Buy	3,248	33.4	39.5	44.1	52.3	12.0	10.2	9.1	7.7	8.5	7.8	6.5	5.7	1.5	1.5	1.3	1.2	13.3	14.2	15.3	16.3
Triveni Engineering (TRIENG)	201	270	Buy	4,858	12.2	17.7	21.5	25.4	16.5	11.4	9.3	7.9	9.6	8.6	6.9	5.9	2.9	2.5	2.1	1.7	19.4	19.2	22.4	23.7
Dwarikesh sugar (DWASUG)	75	110	Buy	1,406	4.9	7.6	8.8	13.2	15.4	9.8	8.5	5.7	9.7	7.0	5.8	3.9	2.4	2.0	1.7	1.4	14.4	20.0	20.7	28.5
Dhampur Sugar (DHASUG)	314	500	Buy	2,088	34.4	44.9	53.1	57.6	9.1	7.0	5.9	5.5	6.6	5.5	4.4	4.0	1.3	1.1	1.0	0.9	14.8	16.8	19.1	18.9
Avadh Sugar (AVASUG)	449	685	Buy	897	38.8	66.5	94.9	106.7	11.6	6.7	4.7	4.2	8.1	5.9	3.9	2.8	1.4	1.1	0.9	0.8	11.5	14.7	20.6	23.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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