Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 41.56
Updated Feb 08, 2022

Severe Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

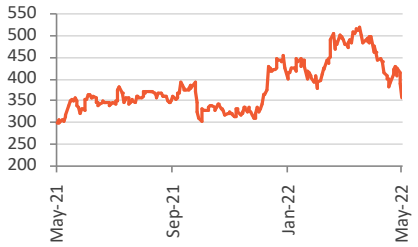
Company details

Market cap:	Rs. 7,260 cr
52-week high/low:	Rs. 526 / 292
NSE volume: (No of shares)	36.9 lakh
BSE code:	500038
NSE code:	BALRAMCHIN
Free float: (No of shares)	11.7 cr

Shareholding (%)

Promoters	42.4
FII	17.9
DII	19.3
Others	20.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-22.8	-5.7	10.6	19.7
Relative to Sensex	-17.8	-4.2	18.4	13.5

Sharekhan Research, Bloomberg

Balrampur Chini Mills Ltd

Mixed Q4; Ethanol will increase in sweetness in FY2024

Miscellaneous		Sharekhan code: BALRAMCHIN	
Reco/View: Buy	↔	CMP: Rs. 356	Price Target: Rs. 450 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Balrampur Chini Mills Limited (BCML) ended FY2022 on a flat note, affected by lower sugar production and lesser recovery due to weather vagaries. Revenue stood flat at Rs. 4,846 crore, while EBITDA margin was stable at 14.4% despite lower production and higher cost.
- BCML has undertaken various steps to improve cane availability and sugar productivity. Benefits of the same will be accrued in FY2024.
- With doubling of ethanol capacity to 1,050 KLPD, BCML expects ethanol production of 35 crore litres in FY2024. Better mix will help improve overall EBITDA margin.
- Focus on consistent improvement in sugar production and higher ethanol production will help in driving higher cash flows and deriving better return ratios. Recent correction provides a good entry opportunity. We maintain Buy with a revised PT of Rs. 450.

Balrampur Chini Mills Limited (BCML) registered mixed performance in Q4FY2022. Revenue for the quarter grew by 25.5% y-o-y to Rs. 1,279.6 crore, while EBITDA margin fell by 672 bps y-o-y to 25.9%, resulting in just 4.6% growth in PAT to Rs. 242.6 crore. Double-digit revenue growth can be attributed to 21.7% growth in sugar revenue and 45% y-o-y growth in distillery revenue. EBITDA margin decreased by 672 bps y-o-y to 25.9%. EBIT margin of the sugar business decreased by 435 bps to 19.5% mainly on account of lower recovery rate and higher cane prices. For FY2022, the company's revenue stood flat at Rs. 4,846 crore, while operating profit margin (OPM) stood at 14.4%, with PAT flat at Rs. 453 crore. Cane crushed in FY2022 stood at 885 lakh quintals (down 14% y-o-y) and recovery rate stood at 10.3% (down 30 bps y-o-y). Ethanol production stood at 14.5 crore litre in FY2022.

Key positives

- Blended sugar realisation stood at Rs. 34.5 per kg in Q4 (grew by ~8%); it stood at Rs. 34.7 per kg in FY2022 (grew by 8.4%).
- Distillery division's net revenue grew by 45% y-o-y to Rs. 303 crore.
- Sustained focus on reducing debt led to 21% y-o-y reduction in interest cost in FY2022 (long-term debt reduced by Rs. 106 crore to Rs. 257 crore).
- Cane dues decreased by Rs. 282 crore to Rs. 216 crore in FY2022 and have reduced to nil recently.

Key negatives

- Cane crushing was lower by 14% y-o-y to 885 lakh quintal, while recovery was down to 10.3% (down 30 bps y-o-y) in FY2022.
- EBITDA margin decreased by 672 bps to 25.9% in Q4FY2022.

Management Commentary

- The government is putting a cap of 10 million tonnes on sugar exports, which is unlikely to have any impact on sugar prices and the financial performance of sugar companies in FY2023. Sugar prices are currently hovering around Rs. 35 per kg and are expected to remain firm in the near term.
- Sugarcane crushing is expected to remain flat in FY2023 due to lower cane availability during the season. The company has undertaken measures such as increasing sugarcane plantation by 10-15% and cane area in key regions by 6-7%, playing on varieties to reduce weather vagaries/disease management and 50% cane crushed under ratoon management. This will help the company's cane crushing to improve close to FY2021 levels (management targets 1,035 lakh quintal) and help recovery rate to be better in FY2024.
- BCML is likely to produce 35 crore litre of ethanol, led by the expected increase in capacity to 1,050 KLPD in FY2024, along with higher capacity utilisation. Thus, the company's contribution from the distillery division is expected to go up to 35-40% in the medium term.
- Better cane supply management, improved recovery rate, and higher contribution from the ethanol division will help EBITDA margin to improve consistently in the coming years. We target EBITDA margin to reach 16% by FY2024 from ~14% currently.

Revision in estimates – We have reduced our earnings estimates for FY2023 and FY2024 to factor in lower sugar production than earlier expected and lower EBITDA margin.

Our Call

View: Retain Buy with a revised PT of Rs. 450: Strong growth in the distillery business will help BCML post consistent strong improvement in profitability in the long run. We like the company's focus on improving the growth prospects by playing on its strategy of maximising value accrual from every tonne of cane crushed. With an expected improvement in the cash flows, the company is focusing on becoming debt-free company by FY2024/FY2025. The stock has corrected from ~30% from its recent high due to recent government notification on putting cap on sugar exports to 10 million tonne, which is unwarranted as it will not have any impact on sugar prices and the financials performance of sugar companies. The stock is currently trading at an attractive valuation of 13.3x/10.8x it FY2023E/FY2024E EPS and provides good entry opportunity for the investors. We maintain our Buy recommendation on the stock with a revised price target (PT) Rs. 450.

Key Risks

Any decline in sugar production or change in government policies towards ethanol blending would act as a key risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4811.7	4846.0	5085.6	5818.5
OPM (%)	14.8	14.4	15.0	15.7
Adjusted PAT	479.8	465.8	537.6	663.0
% YoY growth	-8.5	-3.2	16.9	25.7
Adjusted EPS (Rs.)	22.8	22.8	26.3	32.5
P/E (x)	15.3	15.3	13.3	10.8
P/B (x)	2.8	2.6	2.3	2.0
EV/EBITDA (x)	12.1	12.1	11.1	8.8
RoNW (%)	18.3	16.8	17.7	19.4
RoCE (%)	15.7	15.3	16.6	19.5

Source: Company; Sharekhan estimates

Government capping sugar exports to 10mn tonne unlikely to impact sugar fundamentals

India government has capped sugar exports to 10 million tonnes in sugar year (SY) 2021-22 to prevent significant surge in the sugar prices in the current inflationary environment. Further, the government has also asked exporters to seek its permission for any overseas shipments between June 1 and Oct. 31. Sugar mills have already contracted for sugar exports of 9 million tonne for SY2021-22 and exported around 7.5 million tonnes of sugar till April,2022. So there is provision of additional 1mn tonne of exports which companies can do in SY 2021-22. Further, the sugar companies do very limited sugar exports at the end of the sugar season. Thus as mentioned by the management of BCML and other industry experts, this move is unlikely to have any impact on the sugar prices and financial performance of the sugar companies in FY2023. Further, the government is focusing on increasing the ethanol blending to 20% by 2025 and supporting the companies to expand the capacities in quick time by availing loans at low rates. Hence it is unlikely that the government will put a cap on diversion of cane to ethanol blending at it is focusing on reducing the dependence on crude oil imports in the long run. As per the notification, the government would like to keep an inventory of 6-7million tonnes by end of the current sugar season to avoid any shortfall at start of new season. However, considering the normal and well spread out monsoon expectation, the sugar production is expected to be better in the next sugar season (SY2022-23). Overall strong growth in the distillery business and stable sugar output will help the companies to post consistent improvement in the profitability in the near term.

Strong revenue growth; Lower margins affected bottom-line performance in Q4: BCML's revenue grew by 25.5% y-o-y to Rs. 1,279.6 crore, led by 21.7% y-o-y growth in sugar revenue and 45% y-o-y growth in distillery revenue. Sugar recovery (pre B-heavy diversion) stood at 11.74% (36 bps lower on a y-o-y basis). Total sugar sales volume grew by 26%, while average realisation grew by 8.5% y-o-y in Q4. On the other hand, total ethanol sales volume grew by 35.4% y-o-y and average blended ethanol realisation grew by 5.4% y-o-y. EBITDA margin decreased by 672 bps y-o-y to 25.9%. EBIT margin of the sugar business decreased by 435 bps to 19.5% mainly on account of Rs. 80.6 crore financial assistance by the government for exports accounted in other operating income in the base quarter coupled with slight fall in recovery and higher cane prices. Excluding the export incentive, margins would have been higher on a y-o-y basis. Margins of the distillery business were lower on a y-o-y basis due to increased transport cost and freight charges. EBITDA stood flat at Rs. 306.6 crore. Adjusted PAT grew by 4.6% y-o-y to Rs. 242.6 crore (lower than our expectation of Rs. 304.3 crore for the quarter).

Sugar division – Margins impacted by lower recovery rate

The sugar division's revenue grew by 21.7% y-o-y to Rs. 1,173 crore. Sugar sales volume grew by 26% y-o-y to 24.6 lakh quintal in Q4FY2022. Blended sugar realisations stood at Rs. 34.5 per kg, up 7.8% y-o-y. For FY2022, Sugarcane crushed decreased by 14% y-o-y to 885.4 lakh quintal. Sugar recovery (posy B-heavy diversion) stood at 10.3%. Hence, sugar production fell by 17% in FY2022. This affected total sales volume, which was down 9.4% y-o-y to 102.6 lakh quintal. With average realisation growing by 8%, the sugar division's revenue for FY2022 stood flat at Rs. 4,846 crore. EBIT margin was lower on a y-o-y basis mainly on account of lower recovery rate, higher cane prices, and increased freight cost. The company has undertaken adequate measures to improve cane supply and yields, which will lead to better sugar production in the coming years.

Sugar Division performance snapshot

Operational Data	U.O.M	Q4FY22	Q4FY21	y-o-y (%)	FY2022	FY2021	y-o-y (%)
Sugarcane crushed	lakh quintals	582.6	568.6	2.4	885.4	1032.6	-14.3
Sugar recovery (post B-heavy diversion)	%	10.5	10.9	-39	10.3	10.6	-36
Sugar Production	lakh quintals	61.1	61.9	-1.2	91.0	109.8	-17.2
Domestic sales	lakh quintals	21.1	19.3	9.3	97.2	107.7	-9.7
Export sales	lakh quintals	3.5	0.2	-	5.4	5.6	-3.2
Total sugar sales	lakh quintals	24.6	19.5	26.1	102.6	113.3	-9.4
Average blended realisation	Rs./kg	34.5	32.0	7.8	34.7	32.0	8.4

Source: Company, Sharekhan Research

Distillery division – Strong revenue growth in Q4

Revenue of the distillery division grew by 45% y-o-y to Rs. 303 crore, aided by higher volume and per unit realisation. Average ethanol realisation from B-heavy/C-heavy route grew by 2.6% and 2.1% y-o-y to Rs. 59.1 and Rs. 46.7 per litre, respectively. Total ethanol sales increased by 41.6% y-o-y to 4.7 crore litre during the quarter. However, EBIT margin declined from 45.9% in Q4FY2021 to 34.6% in Q4FY2022. Revenue of the distillery division grew by 19% y-o-y in FY2022 to Rs. 1,001.4 crore, led by 8% growth in sales volume and 11% growth in blended realisation. With expected increase in capacity to 1,050 KLPD by November 2022, the company is likely to produce 35 crore litre of ethanol with increased capacity utilisation. Revenue from the distillery division contributed ~19% to overall revenue in FY2022 as compared to 7% in FY2018. Going forward, the distillery segment is expected to contribute 35-40% to overall revenue. The distillery division contributed ~56% to PBIT in FY2022 compared to 26% in FY2018. Higher contribution from ethanol will result in better profitability with improved mix.

Distillery Division's Performance — Rs cr

Operational Data	U.O.M	Q4FY22	Q4FY21	y-o-y (%)	FY2022	FY2021	y-o-y (%)
Production from B-heavy molasses	Cr. Ltr	4.3	4.3	0.2	13.3	10.2	30.6
Production from C-heavy molasses	Cr. Ltr	0.5	0.3	51.6	1.2	4.8	-74.6
Total production	Cr. Ltr	4.7	4.6	3.7	14.5	15.0	-3.3
Ethanol sales from B-heavy route	Cr. Ltr	4.4	2.9	50.9	14.59	9.59	52.1
Ethanol sales from C-heavy route	Cr. Ltr	0.3	0.4	-28.2	1.1	4.94	-77.7
Total ethanol sales	Cr. Ltr	4.7	3.32	41.6	15.69	14.53	8.0
Avg. ethanol realisation from B-heavy route	Rs. / Ltr	59.1	57.6	2.6	58.1	55.5	4.7
Avg. ethanol realisation from C-heavy route	Rs. / Ltr	46.7	45.7	2.1	46.0	43.9	4.6

Source: Company, Sharekhan Research

Capacity expansion as per plan

Modernisation and upgradation of sugar factories are expected to come on stream from November 2022. The company completed the expansion of its Gularia distillery from 160 KLPD to 200 KLPD during the quarter. The greenfield/brownfield expansion programmes for distillery at Maizapur and Balrampur are on track and production is expected to commence at the expanded capacity from November 2022.

Results (Consolidated) — Rs cr

Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Total revenue	**1,279.6**	**1,019.3**	**25.5**	**1,212.2**	**5.6**
Raw-material cost	728.5	461.5	57.8	943.7	-22.8
Employee cost	88.9	79.6	11.7	82.5	7.8
Other expenses	131.2	146.0	-10.1	86.1	52.4
Total operating expenses	948.6	687.1	38.1	1,112.4	-14.7
Operating profit	**331.0**	**332.2**	**-0.3**	**99.8**	**-**
Other income	11.8	7.9	49.1	11.6	1.3
Interest expense	7.8	9.6	-19.1	3.7	-
Depreciation	28.4	27.8	2.3	28.0	1.5
Profit before tax	**306.6**	**302.7**	**1.3**	**79.7**	**-**
Tax	64.0	70.7	-9.6	21.4	-
Adjusted PAT (before MI)	**242.6**	**231.9**	**4.6**	**58.3**	**-**
Minority interest (MI)	-0.9	3.5	-	5.8	-
exceptional item	-1.2	0.0	-	0.0	-
Reported PAT	**240.5**	**235.5**	**2.1**	**64.1**	**-**
EPS (Rs.)	**11.5**	**11.2**	**2.1**	**3.1**	**-**
			bps		**bps**
GPM (%)	43.1	54.7	-	22.1	-
EBITDA margins (%)	25.9	32.6	-672	8.2	-
NPM (%)	19.0	22.8	-379	4.8	-
Tax rate (%)	20.9	23.4		26.8	

Source: Company, Sharekhan Research

Division wise performance Rs cr

Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
Sugar	1,173	964	21.7	1,123	4.5
Distillery	303	209	45.0	172	76.0
Others	8	8	6.4	4	91.2
Total	**1,484**	**1,181**	**25.7**	**1,300**	**14.2**
Less: Inter segment revenue	205	162	26.7	88	133.9
Revenue from operations	**1,280**	**1,019**	**25.5**	**1,140**	**12.2**

Source: Company, Sharekhan Research

Division wise PBIT margins in %

Particulars	Q4FY22	Q4FY21	BPS (YoY)	Q3FY22	q-o-q (%)
Sugar	19.5	23.9	-435	40.9	-
Distillery	34.6	45.9	-	29.6	499
Others	57.3	59.9	-260	47.4	993
Total	**22.8**	**28.0**	**-518**	**39.4**	**-1657**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Rise in supply for ethanol manufacturing to drive growth

As per ISMA's latest estimates for SY2021-SY2022, total sugarcane production is estimated at 35.0 million tonne. It is further estimated that due to diversion of sugarcane juice and B-heavy molasses, actual sugar production will drop by 3.4 million tonne. Therefore, estimated sugar production net of diversion is estimated at 31.6 million tonne. The Government of Uttar Pradesh announced the State Advised Price (SAP) for SS 2021-2022 at Rs. 250/quintal, higher than the last season. Accordingly, now the early variety of sugarcane will cost Rs. 350 quintal. A revised ethanol policy, likely minimum support price (MSP) revision, quota-based sugar distribution, and export quota of 10 million tonne will benefit sugar companies in FY2023/FY2024 with higher sugar realisation with sugar inventory expected to remain 6 million-7 million tonne. Increased international sugar prices would help Indian companies to get better export realisation for their produce. The average blending percentage in the country stands at 9.82% till April 24, 2022. The government is targeting to achieve 20% blending of ethanol by 2024-2025 (10% ethanol blending by marketing year 2021-2022), which would largely solve the problem of excess sugar over the medium term.

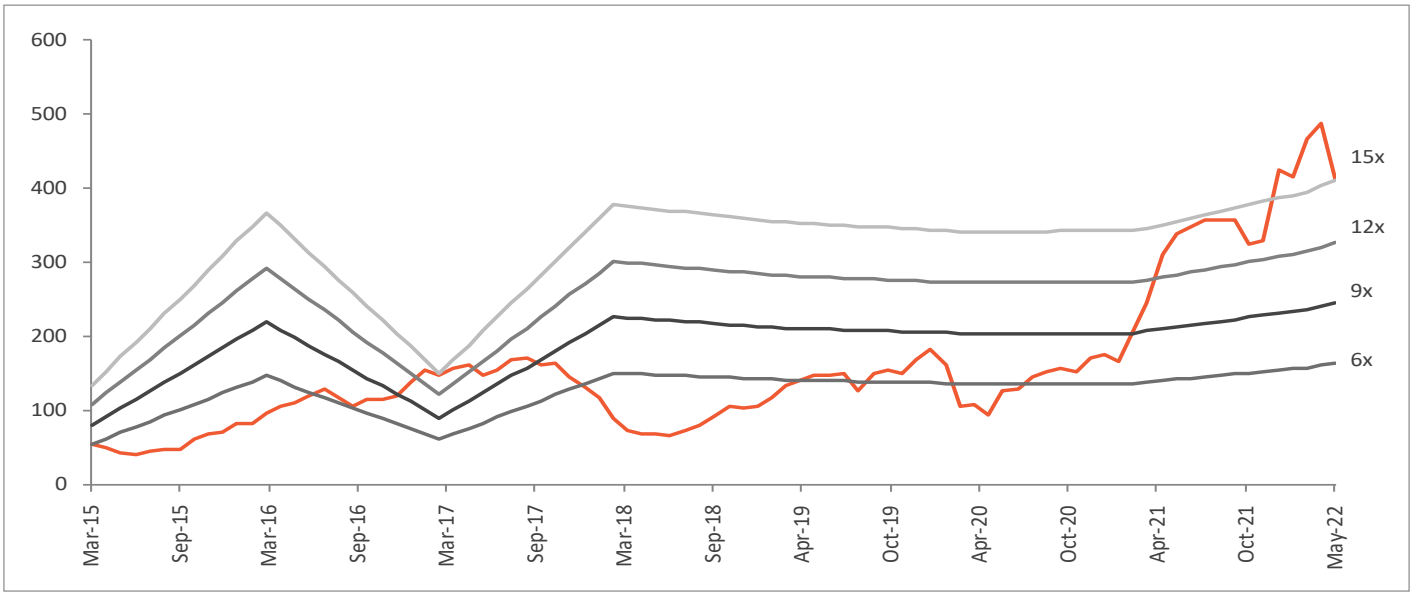
■ Company outlook - Higher ethanol sales to boost profitability in FY2024

FY2022 (SY2021) sugar volumes were impacted by lower production due to pest attack and late start to SS 2021-2022. Management has guided for flat increase in SS 2021-2022. Sugarcane crushing is expected to remain flat in FY2023 due to lower cane availability during the season. The company has undertaken measures such as increasing sugarcane plantation by 10-15% and cane area in key regions by 6-7%, playing on varieties to reduce weather vagaries/ disease management and 50% cane crushed under ratoon management. This will help the company's cane crushing to improve close to FY2021 levels in FY2024. Ethanol production is expected to increase to 35 crore litre by FY2024 due to capacity enhancements underway. Overall, BCML's revenue and PAT are expected to grow at 10% and 20%, respectively, over FY2022-FY2024.

■ Valuation - Retain Buy with a revised PT of Rs. 450

Strong growth in the distillery business will help BCML post consistent strong improvement in profitability in the long run. We like the company's focus on improving the growth prospects by playing on its strategy of maximising value accrual from every tonne of cane crushed. With an expected improvement in the cash flows, the company is focusing on becoming debt-free company by FY2024/FY2025. The stock has corrected from ~30% from its recent high and is currently trading at an attractive valuation of 13.3x/10.8x. We maintain our Buy recommendation on the stock with a revised PT Rs. 450.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Triveni Engineering	14.9	14.3	12.2	12.7	10.8	9.2	17.9	17.3	18.7
Dhampur Sugar Mills	16.0	26.7	24.1	5.2	4.3	3.3	15.4	17.6	19.8
Balrampur Chini	15.3	13.3	10.8	12.1	11.1	8.8	15.3	16.6	19.5

Source: Company; Sharekhan Research

About company

BCML is one of the largest integrated sugar manufacturing companies in India. The allied businesses of the company comprise distillery operations and cogeneration of power. The company is headquartered in Kolkata and has 10 sugar factories in UP with total cane crushing capacity of 76,500 tonne per day, four distillery units with a collective capacity of 560 kilo litre per day, and eight co-generation units with saleable co-generation capacity of 172.2 megawatts. BCML was among the first companies to moderate its dependence on sugar and venture into distillery and cogeneration. BCML has a strong balance sheet and has historically generated a high payout for shareholders by way of dividends and share buybacks.

Investment theme

BCML will be one of the key beneficiaries of reducing cyclicality in the sugar industry. With new distillery capacity of 320 KLPD (operational in December 2022), the company is likely to produce close to 30 crore litre of ethanol and generate sales/profit of ~Rs. 1,700 crore/~Rs. 850 crore by FY2024. Higher salience of ethanol in revenue mix will improve the cash conversion cycle with debt reduction; The company is likely to generate cumulative OCF of ~Rs. 1,700 crore-1,800 crore over FY2022-FY2024. The company has one of the lean balance sheets in the sugar universe with debt:equity ratio of 0.5x. We expect BCML's revenue and PAT to post CAGR of 10% and 20%, respectively, over FY2022-FY2024.

Key Risks

- Lower sugar production would impact the company's revenue and act as a key risk to our earnings estimates.
- Change in government policies towards ethanol blending would affect the company's profitability.

Additional Data

Key management personnel

Sumit Mazumder	Chairman
Vivek Saraogi	Managing Director
Pramod Patwari	Chief Financial Officer
Manoj Agarwal	Company Secretary and Compliance Office

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Aadi Financial Advisors	5.26
2	Nippon Life India Asset Management Company	4.39
3	L & T Mutual Fund Trustee India	3.44
4	Bhansali Pankhidevi	2.23
5	Goldman Sachs Group Inc	2.12
6	Vanguard Group Inc	1.86
7	Goldman Sachs India Pvt Ltd	1.71
8	Dimensional Fund Advisors LP	1.69
9	Emirate of Abu Dhabi United Arab Emirates	1.38
10	BlackRock Inc	1.36

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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