

Balrampur Chini (BALCHI)

CMP: ₹ 356

Target: ₹ 515 (45%)

Target Period: 12 months

BUY

May 26, 2022

New sugarcane varieties to aid recovery in production

About the stock: Balrampur Chini (BCML) is the second largest sugar company with sugar crushing capacity of 77500 TCD, distillery capacity of 560 KLD & co-generation capacity of 175.7 MW. It is undertaking a distillery capex of 490 KLD & 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 18 crore litre in FY22. Moreover, the modernisation plan would result in higher sugarcane crushing & better recoveries

Q4FY22 Results: BCML reported soft results with a flat operating profit number.

- Sales witnessed growth of 25.5%YoY, aided by higher domestic quota & exports of 35000 tonnes
- EBITDA was flat at ₹ 331 crore, with margins at 25.9%
- Consequent PAT was at ₹ 240.5 crore (up 2.1% YoY)

What should investors do? BCML's share price has gone up 114% in the last five years (from ₹ 167 in May 2017 to ₹ 356 in May 2022).

- We expect 38% CAGR distillery volume growth, which would boost earnings with CAGR of 36.8% during FY22-24E
- We continue to maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 515, valuing the business at 12x FY24 PE.

Key triggers for future price performance:

- With distillery capex, BCML would be able to increase its ethanol capacity 2x to 35 crore litre. Distillery sales to witness 43.5% CAGR to ₹ 1939.9 crore in FY22-24E, which would be 33% of total revenues
- It is undertaking modernisation and de-bottlenecking at some plants. This would lead to higher sugarcane crushing, better recoveries by FY24. We expect 9.9% revenue CAGR in FY22-24E
- BCML is introducing newer sugarcane variety in its catchment areas, which would reduce the dependence on Co-0238 & improve sugarcane availability

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 and abundant sugarcane availability. It is increasing its distillery capacity to 2x in the next two years
- We value the stock at ₹ 145/share with **BUY** recommendation



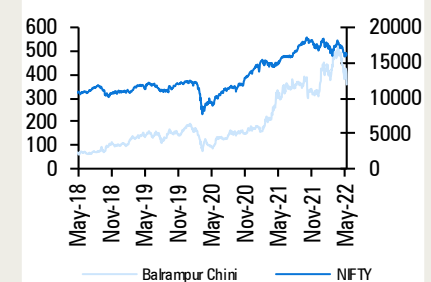
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	7,471.8
Total Debt (FY22)	1,210.7
Cash and Investments (FY22)	3.3
EV	8,679.2
52 week H/L (₹)	525 / 292
Equity capital	20.4
Face value (₹)	1.0

Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	41.2	41.4	42.4	42.4
FII	20.8	20.9	19.1	17.0
DII	16.2	15.2	16.8	19.3
Others	21.8	22.5	21.7	21.3

Price Chart



Recent event & key risks

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

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Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR (FY17 to FY22)	FY22	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	4741.3	4811.7	6.8	4846.0	5101.5	5853.3	9.9%
EBITDA	682.0	713.8	-3.9	699.7	904.6	1199.7	30.9%
EBITDA Margin %	14.4	14.8		14.4	17.7	20.5	
Net Profit	519.4	479.8	-4.1	464.6	602.2	784.8	30.0%
EPS (₹)	23.6	22.8	-2.0	22.8	31.0	42.6	36.8%
P/E	15.1	15.6		15.6	11.5	8.3	
RoNW %	21.5	18.3		16.8	19.3	22.3	
RoCE (%)	16.1	16.4		15.2	17.6	23.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q4FY22 Results: Sugar exports restriction at 10 MT immaterial given industry only looking to export 9.5 MT

- Consolidated revenue witnessed growth of 25.5% to ₹ 1279.6 crore led by 21.7% growth in sugar segment sales and 45% growth in distillery sales. Sugar volume growth was 26.1% to 2.5 lakh tonnes (lt) led by 0.35 lt of exports & 2.1 lt (9.3% higher) of domestic sales. Blended sugar realisation was up 7.8% to ₹ 34.5 kg. The company is holding 5.2 lt of sugar valued at ₹34.22 / kg against 6.4 lt valued at ₹ 31.3 / kg
- Distillery sales growth of 45% led by 35.4% growth in distillery volumes & 5.4% increase in distillery realisation. The company sold 5.13 crore litre of ethanol + ENA during the quarter, which includes 4.42 crore litre of B-heavy ethanol (86.2%), 0.28 crore litre of C-heavy ethanol (5.5%) & 0.43 crore litre of ENA (8.3%) for levy quota
- Saleable power volumes declined 18.1% to 34.9 crore units in FY22. The company prefers to sell bagasse after the reduction in tariff in 2020. The transfer pricing for bagasse is ₹ 1.4/kg
- In 2021-22 sugar season, the company crushed 1.5% higher sugarcane at 88.83 lt with 31 bps lower sugar recovery at 11.48% (pre-sacrifice). The sugarcane crushing for the company is down ~16-18% from its peak crushing in 2019-20 sugar season of 105 lt. The drop in crushing is mainly due to lower sugarcane availability in its catchment area due to red rot disease & unseasonal rains in October 2021
- Planting area in BCML's catchment area has increased 10-15%. The company is aggressively changing its sugarcane varieties by introducing newer varieties like '0118' to reduce dependence on Co-0238. The company expects to reach crushing of 105 lt in 2022-23 season. The area under '0118' variety would increase from 13% to 23% in the next crushing season. Overall newer varieties would contribute 40% of the company's catchment area in the next one year
- On an annual basis, the company has registered sale of 17.7 crore litre of ethanol. The capex related to new distillery and de-bottlenecking of crushing capacity would be completed by November 2022. This would result in distillery capacity on 35 crore litre in FY24 (including 5 crore grain based distillery)
- The transfer pricing for B-heavy molasses is ₹ 10.3/kg
- Operating profit was flat at ₹ 331 crore despite high sugar & distillery sales volumes mainly due to increase in cost of sugar during the quarter on account of increase in sugarcane price (₹ 25/quintal) during the season and lower recovery rates. Overall cost of production has increased by ₹ 3/kg (₹ 2/kg due to increase in sugarcane prices and ₹ 1/kg due to lower recovery in current season)
- Net profit increased 2.1% to ₹ 240.5 crore with small reduction in interest cost & lower provision for taxation. During the quarter, the company sold entire stake in one of its subsidiary called Visual Percept Solar Project
- Industry wide sugar exports to the tune of 9.0 million tonnes (MT) has already been contracted, out of which 8.2 MT would be exported by May End. The industry expected to clock exports of 9.5 MT in the current season. With the expected production of 35.7 MT, consumption of 27.8 MT and exports of 9.5-10 MT, sugar inventories at the end of September 2022 would be closer to 6.0-6.5 MT
- The government announcement of sugar export restriction at 10 MT would not have any impact given actual exports would be lower than 10 MT. Further, the government is working with closing inventory of 6.0 MT by October 1, which would be maintained even after considering 10 MT exports

- OMCs have contracted 416 crore litre of ethanol for 2021-22, which would be close to 10% ethanol blending. BCML has contracted for 15.7 crore litre (14.8 crore litre of B-heavy & 0.9 crore litre of C-heavy). Also, 50% of the contracted ethanol has already been supplied. The company expected ethanol blending to reach 12.5% in 2022-23 and 15% in 2023-24
- For 2021-22, Brazilian sugar production was 32.1 MT. In April 2022, crushing is lower and diversion towards ethanol was higher due to elevated crude prices. The production for 2022-23 season is expected to be ~33 MT

Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Balrampur Chini (BALCHI)	356	515	Buy	7472	-3.2	-0.3	36.3	37.4	14.8	14.4	17.7	20.5	15.6	15.6	11.5	8.3	2.9	2.7	2.4	2.1	16.4	15.2	17.6	23.0
Dalmia Bharat Sugar (DALSUG)	347	660	Buy	2811	39.9	24.2	12.6	14.8	17.6	18.5	20.5	20.4	10.4	8.4	7.4	6.5	1.5	1.5	1.3	1.2	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	265	350	Buy	6417	-9.9	43.9	15.5	22.6	11.9	14.8	15.2	17.3	21.8	15.1	13.1	10.7	3.9	3.2	2.7	2.3	19.4	15.8	18.2	22.1
Dwarikesh sugar (DOWASUG)	99	145	Buy	1873	24.5	69.6	15.7	47.7	10.9	14.7	14.2	18.7	20.5	12.1	10.4	7.1	3.4	2.9	2.3	1.9	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	578	890	Buy	1156	-12.4	60.3	53.9	21.3	9.6	11.0	13.1	13.8	14.9	9.3	6.0	5.0	1.8	1.5	1.3	1.0	11.5	12.5	17.8	22.0

Source: Company, ICICI Direct Research

Balrampur Chini has been adversely impacted by lower sugarcane crushing in last two seasons due to first red rot disease in its catchment area and then unseasonal rains in October 2021. Though sugarcane recovery has been lower for all UP based sugar companies, sugarcane availability has been particularly impacted for eastern UP based sugar millers. Though the company has been trying to replace sugarcane variety in its catchment area to lower the dependency on Co-0238 sugarcane variety, it is yet to fetch good results. We believe BCML would be able to increase its sugarcane crushing to the previous high in 2022-23 season. We remain positive on the company from a long term perspective. However, short-term headwinds would continue to impact its performance in near term. The company is on track to commission its distillery and complete its capex by November-2022, which would increase its distillery capacity to 35 crore litre. We maintain our **BUY** recommendation with a revised target price of ₹ 515/share (earlier ₹ 600).

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	1,279.6	1,019.4	25.5	1,212.2	5.6	Net sales grew 25.5% led by 21.7% growth in sugar segment sales & 45% growth in distillery segment sales
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	728.5	461.5	57.8	943.7	-22.8	Raw material prices were higher due to increase in sugarcane prices in the current season
Employee Expense	88.9	79.6	11.7	82.5	7.8	
Other operating Expenses	131.2	146.0	-10.1	86.1	52.4	
EBITDA	331.0	332.2	-0.4	99.8	231.7	Operating profit was flat as cost of production increased by ₹ 3/kg due to increase in sugarcane prices & lower sugar recovery during the season
EBITDA Margin (%)	25.9	32.6	-672 bps	8.2	1764 bps	
Depreciation	28.4	27.8	2.3	28.0	1.5	
Interest	7.8	9.6	-19.1	3.7	108.1	
Other Income	11.8	7.9	49.1	11.6	1.3	
PBT	305.4	302.7	0.9	79.7	283.3	
Tax Outgo	64.0	70.7	-9.6	21.4	199.4	
PAT	240.5	235.5	2.1	64.1	275.0	Net profit grew 2.1% with reduction in interest costs & lower tax provisioning
Key Metrics						
Sugar sales volume (in lakh tonne)	2.5	1.9	26.1	2.7	-8.5	Sugar volumes growth was mainly on account of 35,000 tonnes of sugar exports during the quarter
Domestic Sugar realisation (₹ per kg)	34.8	32.1	8.5	36.3	-4.1	Sugar prices were up by 8.5%
Distillery volumes (in crore litre)	5.1	3.8	35.4	3.1	65.5	Distillery volumes were high by 35.4% with higher sugarcane diversion towards B-heavy ethanol
Distillery realisation (₹ per litre)	55.2	52.3	5.4	50.7	8.8	High proportion of B-heavy led to higher distillery realisation

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	4,917.7	5,101.5	3.7	5,887.8	5,853.3	-0.6	We increase our sales volume estimate for FY23E with the expectation of exports in 2022-23 season
EBITDA	962.4	904.6	-6.0	1,258.8	1,199.7	-4.7	However, lower sugarcane availability & lower recovery has increased the cost of production
EBITDA Margin (%)	19.6	17.7	-184 bps	21.4	20.5	-88 bps	
PAT	657.9	602.2	-8.5	852.5	784.8	-7.9	The commissioning of new distillery & increase in related long term debt to increase interest cost for the company
EPS (₹)	33.9	31.0	-8.5	46.3	42.6	-7.9	

Source: ICICI Direct Research

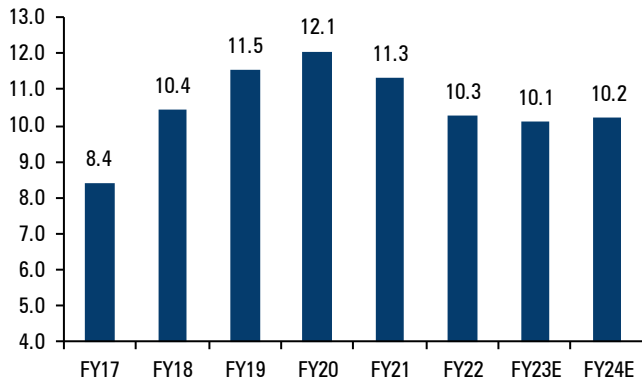
Exhibit 4: Assumptions

	FY19	FY20	Current			Earlier		Comments	
			FY21	FY22	FY23E	FY24E	FY23E		FY24E
Sugar Sold (in tonne)	1,205,300	1,132,600	1,026,300	1,010,000	1,020,000	948,000	1,020,000	We expect high sugar sales in FY23 with the expected exports in 2022-23 season	
Sugar Price (₹ per tonne)		27,689	32,350	34,790	35,500	36,000	35,500	36,000	
Distillery volume		119,320	165,204	176,500	231,000	336,000	240,240	348,600	We reduce our distillery volume estimates
Distillery price (₹ per KL)		45,701	48,350	53,380	55,515	57,736	53,920	56,077	Small change in distillery realisations
Power Units sold		52.6	42.6	34.9	34.9	34.9	51.1	51.1	
Price per unit (₹ per units)		3.1	3.2	3.3	3.4	3.4	3.4	3.4	

Source: ICICI Direct Research

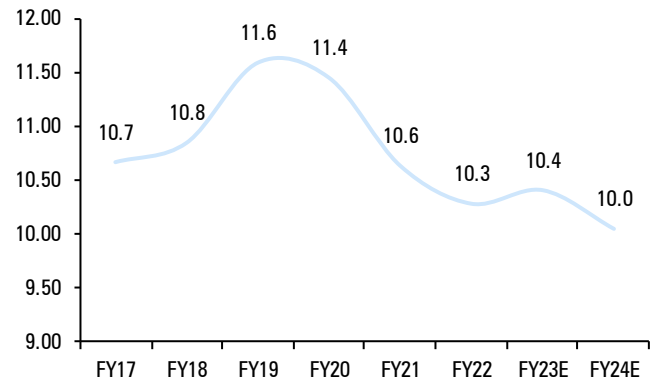
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



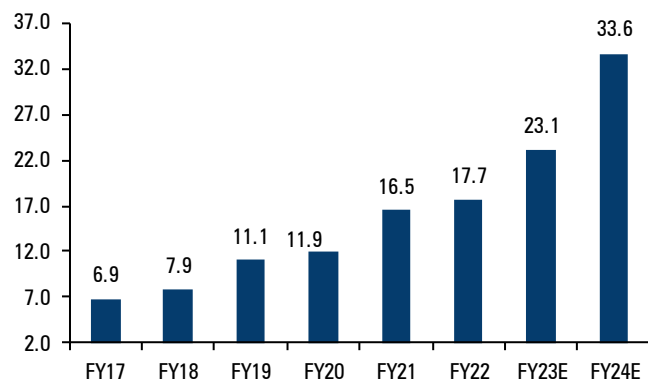
Source: ICICI Direct Research, Company

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



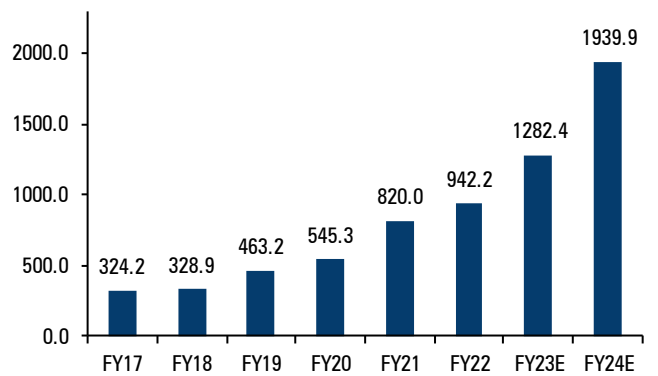
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



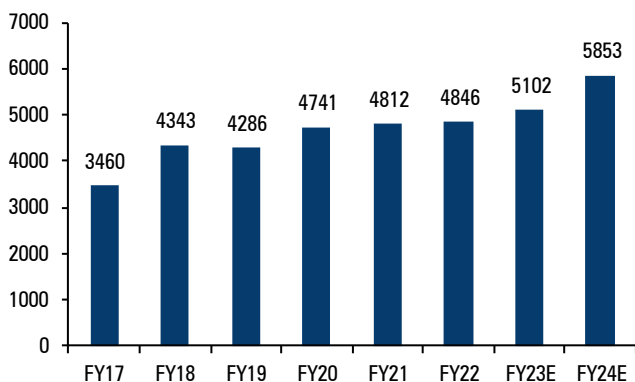
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



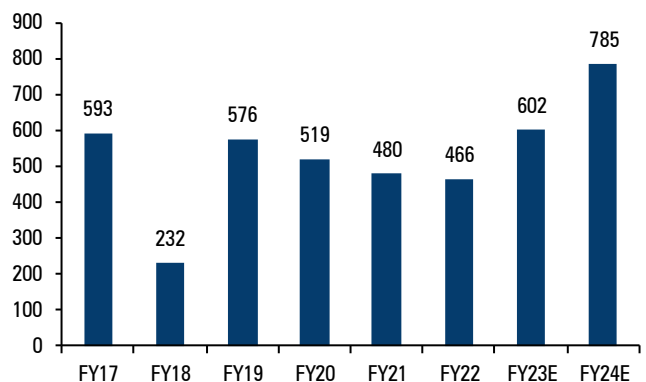
Source: Company, ICICI Direct Research

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	15.6	12.0	18.3	16.4
FY22	4846.0	0.7	22.8	-0.3	15.6	12.3	16.8	15.2
FY23E	5101.5	5.3	31.0	36.3	11.8	9.7	19.3	17.6
FY24E	5853.3	14.7	42.6	37.4	8.8	7.0	22.3	23.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	4,811.7	4,846.0	5,101.5	5,853.3
Growth (%)	1.5	0.7	5.3	14.7
Raw Material Expenses	3,456.0	3,456.1	3,542.1	3,959.9
Employee Expenses	281.7	307.8	323.2	342.6
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	360.1	382.4	331.6	351.2
Total Operating Expenditure	4,097.8	4,146.3	4,196.9	4,653.7
EBITDA	713.8	699.7	904.6	1,199.7
Growth (%)	4.7	-2.0	29.3	32.6
Depreciation	111.9	113.9	126.1	162.6
Interest	39.3	30.9	49.8	40.8
Other Income	26.9	33.0	36.3	34.5
PBT	562.7	555.0	728.7	996.3
Total Tax	129.4	134.1	176.0	259.8
PAT	479.8	464.6	602.2	784.8
Adjusted PAT	479.8	465.6	602.2	784.8
Growth (%)	-7.6	-3.0	29.3	30.3
Adjusted EPS (₹)	22.8	22.8	31.0	42.6

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	589.6	602.9	602.2	784.8
Add: Depreciation	111.9	113.9	126.1	162.6
Add: Interest	39.3	30.9	0.0	0.0
(Inc)/dec in Current Assets	106.2	373.7	112.4	-165.3
Inc/(dec) in Current Liabilities	-140.1	-297.5	45.1	83.3
CF from operating activities	649.0	694.7	885.7	865.4
(Inc)/dec in Investments	15.7	0.3	-25.0	-25.0
(Inc)/dec in Fixed Assets	-97.8	-396.5	-801.2	-100.0
Others	0.9	86.8	3.0	0.0
CF from investing activities	-81.1	-309.4	-823.3	-125.0
Issue/(Buy back) of Equity	-223.2	-266.9	-200.0	-225.0
Inc/(dec) in loan funds	-251.1	-37.8	220.7	-380.0
Dividend paid & dividend tax	-52.5	-51.0	-119.4	-155.2
Inc/(dec) in Sec. premium	0.0	-0.1	68.5	0.0
Others	-42.1	-29.7	0.0	0.0
CF from financing activities	-568.9	-385.4	-30.2	-760.2
Net Cash flow	-1.0	-0.1	32.3	-19.8
Opening Cash	1.5	0.4	0.3	32.6
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	0.3	32.6	12.8

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet ₹ crore

	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	21.0	20.4	19.9	19.4
Reserve and Surplus	2,598.1	2,749.3	3,101.1	3,506.2
Total Shareholders funds	2,619.1	2,769.7	3,121.0	3,525.6
Total Debt	1,134.6	1,210.7	1,431.4	1,051.4
Long Term Provisions	8.2	9.6	9.6	9.6
Other Non-current Liabilities	71.2	77.8	78.8	79.8
Total Liabilities	3,833.2	4,067.8	4,640.8	4,666.4
Assets				
Gross Block	2,202.0	2,352.0	3,152.0	3,252.0
Less: Acc Depreciation	604.2	718.1	844.2	1,006.8
Net Block	1,597.8	1,632.7	2,307.8	2,245.2
Capital WIP	14.5	204.3	204.3	204.3
Intangible assets	0.8	1.0	1.0	1.0
Non Current Investments	249.2	172.6	197.6	222.6
Other non-current assets	17.3	104.9	104.9	104.9
Current Assets				
Inventory	2,378.5	2,200.5	2,054.8	2,195.0
Debtors	245.5	136.7	170.1	195.1
Cash	2.8	3.3	32.6	12.8
Loans & Advances	0.0	0.0	0.0	0.0
Other Current Assets	127.7	36.0	36.0	36.0
Current Liabilities				
Creditors	596.4	281.9	325.5	388.1
Provisions	5.4	6.7	6.7	6.7
Other CL	199.0	135.5	136.0	155.7
Net Current Assets	1,953.6	1,952.3	1,825.2	1,888.4
Total Assets	3,833.2	4,067.7	4,640.7	4,666.3

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	22.8	22.8	31.0	42.6
Cash EPS	28.2	28.4	37.5	51.5
BV	124.7	135.7	156.8	181.7
DPS	2.5	2.5	6.0	8.0
Cash Per Share	28.8	35.2	42.4	51.9
Operating Ratios (%)				
EBITDA Margin	14.8	14.4	17.7	20.5
PBT / Net Sales	12.3	12.1	15.0	17.6
PAT Margin	10.0	9.6	11.8	13.4
Inventory days	180.4	165.7	147.0	136.9
Debtor days	18.6	10.3	12.2	12.2
Creditor days	45.2	21.2	23.3	24.2
Return Ratios (%)				
RoE	18.3	16.8	19.3	22.3
RoCE	16.4	15.2	17.6	23.0
Valuation Ratios (x)				
P/E	15.6	15.6	11.5	8.3
EV / EBITDA	12.0	12.3	9.7	7.0
EV / Net Sales	1.8	1.8	1.7	1.4
Market Cap / Sales	1.6	1.5	1.5	1.3
Price to Book Value	2.9	2.7	2.4	2.1
Solvency Ratios				
Debt/EBITDA	1.6	1.7	1.6	0.9
Debt / Equity	0.4	0.4	0.5	0.3
Current Ratio	4.3	7.4	6.2	5.7
Quick Ratio	0.6	0.5	0.6	0.5

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)	356	515	Buy	7,472	22.8	22.8	31.0	42.6	15.6	15.6	11.5	8.3	12.0	12.3	9.7	7.0	2.9	2.7	2.4	2.1	16.4	15.2	17.6	23.0
Dalmia Bharat Sugar (DALSUG)	347	660	Buy	2,811	33.4	41.5	46.7	53.6	10.4	8.4	7.4	6.5	8.5	7.9	6.4	5.5	1.5	1.5	1.3	1.2	13.3	14.4	15.7	16.7
Triveni Engineering (TRIENG)	265	350	Buy	6,417	12.2	17.5	20.3	24.8	21.8	15.1	13.1	10.7	12.3	11.9	9.8	7.6	3.9	3.2	2.7	2.3	19.4	15.8	18.2	22.1
Dwarikesh sugar (DWASUG)	99	145	Buy	1,873	4.9	8.2	9.5	14.1	20.5	12.1	10.4	7.1	12.6	8.4	7.7	5.0	3.4	2.9	2.3	1.9	14.4	20.6	20.3	30.0
Avadh Sugar (AVASUG)	578	890	Buy	1,156	38.8	62.2	95.7	116.1	14.9	9.3	6.0	5.0	9.4	8.0	5.3	3.9	1.8	1.5	1.3	1.0	11.5	12.5	17.8	22.0

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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