



**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** 35.62  
Updated July 08, 2022

**Medium Risk**

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

Source: Morningstar

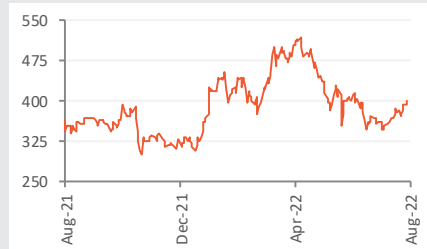
**Company details**

Market cap:	Rs. 7,141 cr
52-week high/low:	Rs. 526 / 298
NSE volume: (No of shares)	37.4 lakh
BSE code:	500038
NSE code:	BALRAMCHIN
Free float: (No of shares)	11.7 cr

**Shareholding (%)**

Promoters	42.4
FII	17.2
DII	19.3
Others	21.1

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	0.7	-15.4	-20.2	-11
Relative to Sensex	-7.9	-21.9	-19.8	-8.2

Sharekhan Research, Bloomberg

**Balrampur Chini Mills Ltd**

**Soft Q1; medium-term growth prospects intact**

<b>Miscellaneous</b>	<b>Sharekhan code: BALRAMCHIN</b>		
<b>Reco/View: Buy</b>	↔	<b>CMP: Rs. 350</b>	<b>Price Target: Rs. 420</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Balrampur Chini Mills Limited's (BCML's) Q1FY2023 performance was below par as lower sugar yields, a rise in SAP cost and higher fixed costs affected profitability.
- With good rains in the cane-growing areas, BCML is expecting better acreage in the next sugar season. It has undertaken various steps to improve cane availability and sugar productivity.
- As ethanol capacity will be doubled to 1,050 KLPD by Q3FY2023, BCML expects to produce 35 crore litres of ethanol in FY2024. Better mix will help improve overall EBITDA margin.
- Focus on consistent improvement in sugar and ethanol production will help drive up cash flows and deriving better return ratios. The stock is currently trading at 14.4x/11.5x its FY023E/24E earnings. We maintain Buy with a revised PT of Rs. 420.

**Balrampur Chini Mills Limited's (BCML's) Q1FY2023 performance was affected by lower sugar yields due to lower cane production coupled with increase in SAP cost and higher fixed costs affected profitability during the quarter. Crushing days were lower due to a decline in cane availability. Revenues decreased by 5.3% y-o-y to Rs. 1080.1 crore. Revenues of sugar business decreased by 3.1% to Rs. 914.4 crore; Distillery business revenues grew by 11.5% y-o-y to Rs. 298.1 crore. EBITDA margins decreased by 764 bps y-o-y to 4.1%. Sugar business registered EBIT loss of Rs. 55.7 crore due to the impact of a hike in SAP costs, lower sugar recovery and higher fixed overheads. Also base quarter has export subsidy of Rs. 48.2 crore. Distillery business' margins declined by 1044 bps y-o-y at 33.0%. EBITDA declined by 67% y-o-y to Rs. 44.4 crore and reported PAT decreased by 84% y-o-y to Rs. 12.4 crore.**

**Key positives**

- Blended sugar realisations grew by 7% to Rs. 35.6 per kg mitigate the impact of double digit decline in sugar sales volumes.
- Distillery division's net revenues grew by 10.3% y-o-y to Rs. 298.1 crore driven by 7.7% sales volume growth.
- Cane dues were NIL as on June 20, 2022 versus Rs. 216 crore in FY2022.

**Key negatives**

- Pre-diversion sugar recovery stood lower at 11.24% in Q1FY2023 vs. 12.69% in Q1FY2024.
- Lower recovery in sugar, higher transfer pricing for ethanol and higher fixed cost led to sharp decline in the EBITDA margins by 764 bps to 4.1%.

**Management Commentary**

- BCML's cane acreage is expected at 3.24 lakh hectares (8% higher as compared to previous year) in the upcoming sugar season. The company is working on varietal re-balancing of cane/disease management activities, which will help achieve better yields in the coming season. Overall the company is targeting sugar production of 10.3-10.5 million quintals in (Sugar Year) SY2022-23.
- Sugar prices currently stands at Rs. 36 per kg and the company expects prices to remain firm in the coming months. With domestic demand expected to grow by 3% and likely exports in the next season, the sugar prices are expected to remain firm in the domestic market.
- Sugar production costs Rs. 33 per kg, which is expected to reduce next year as yields improve.
- BCML is likely to produce 35 crore litres of ethanol, led by the expected increase in capacity to 1,050 KLPD in FY2024 and higher capacity utilisation. Thus, the company's contribution from the distillery division is expected to go up to 35-40% in the medium term.

**Revision in estimates** – We have reduced our earnings estimates for FY2023 and FY2024 to factor in lower EBITDA margin in view of higher transfer pricing for the ethanol division.

**Our Call**

**View: Retain Buy with a revised PT of Rs. 420:** Strong growth in distillery business will help BCML consistently improve profitability in the long run. We like the company's focus on improving the growth prospects by playing on its strategy of maximising value accruals from each tonne of cane crushed. With an expected improvement in the cash flows, the company is focusing on becoming debt-free by FY2024/ FY2025. The management has maintained its stance on improving shareholders value by generating higher cash flows in the coming years. The stock trades at an attractive valuation of 14.4x/11.5x its FY2023E/FY2024E earnings. We maintain our Buy recommendation on the stock with a revised price target (PT) Rs. 420.

**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)**

Particulars	FY21	FY22	FY23E	FY24E
Revenue	4811.7	4846.0	5242.2	6100.2
OPM (%)	14.8	14.4	13.6	14.1
Adjusted PAT	479.8	465.8	497.1	619.7
% YoY growth	-8.5	-3.2	7.4	27.1
Adjusted EPS (Rs.)	22.8	22.8	24.4	30.4
P/E (x)	15.3	15.3	14.4	11.5
P/B (x)	2.8	2.6	2.3	2.1
EV/EBIDTA (x)	12.1	12.1	11.8	9.4
RoNW (%)	18.3	16.8	16.5	18.4
RoCE (%)	15.7	15.3	15.5	18.6

Source: Company; Sharekhan estimates

## Weak Q1 – Muted revenue growth; margins decline y-o-y

Balrampur Chini Mills (BCML) revenues decreased by 5.3% y-o-y to Rs. 1,080.1 crore due to lower quota by the Government for sale of sugar which was partly offset by higher sugar realisations along with enhanced volumes and realizations in distillery segment. Sugar business' revenues declined by 3.2% y-o-y to Rs. 914.4 crore; while distillery business revenues grew by 11.5% y-o-y to Rs. 298.1 crore. Sugar recovery (pre B-heavy diversion) stood at 11.24% (145 bps lower on a y-o-y basis). Total sugar sales volumes declined by 11.8%, while average blended realisations grew by 7.2% y-o-y in Q1. On the other hand, total ethanol sales volume grew by 6.3% y-o-y and average blended ethanol realisation (B-heavy route) grew by 2.6% y-o-y. EBIDTA margin decreased by 764 bps y-o-y to 4.1%. Sugar business registered EBIT loss of Rs. 55.7 crore due to impact of hike in SAP costs, lower sugar recovery and higher fixed overheads. Also base quarter had export subsidy of Rs. 48.2 crore. Distillery business margins declined to 33.0% from 43.5% in Q1FY2022. EBIDTA declined by 67% y-o-y to Rs. 44.4 crore and reported PAT decreased by 84% y-o-y to Rs. 12.4 crore. In June 2022, BCML availed long term borrowings of Rs. 210 crore for the ongoing capex in the distillery segment, accordingly, the company's long term debt stands at Rs. 444 crore at Q1FY2023-end.

## Sugar division – Muted quarter impacted by lower volumes

The sugar division's revenue declined by 3.2% y-o-y to Rs. 914.4 crore as sales volume was impacted by lower quota by the Government for sale of sugar. Total sugar sales volume declined by 11.8% y-o-y to 21.3 lakh quintal in Q1FY2023. Average blended sugar realisations stood at Rs. 35.6 per kg, up 7.2% y-o-y. Sugar recovery (post B-heavy diversion) stood at 9.7% (155 bps lower on a y-o-y basis). Sugar business registered EBIT loss of Rs. 55.7 crore against a profit of Rs. 6.8 crore in Q1FY2022 due to a hike in SAP costs, lower sugar recovery and higher fixed overheads. Also base quarter had export subsidy of Rs. 48.2 crore. BCML had 36.47 lakh quintal sugar inventory, as on 30th June 2022 as compared to 45.74 lakh quintal on June 20, 2021. At Q1FY2023-end, inventory was valued at Rs. 34.1/kg as against Rs. 31.4/kg in Q1FY2022.

### Sugar Division performance snapshot

Operational Data	U.O.M	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Sugarcane crushed	lakh quintals	46.2	43.3	6.7	582.6	-92.1
Sugar recovery (post B-heavy diversion)	%	9.7	11.3	-155	10.5	-77
Sugar Production	lakh quintals	4.5	4.9	-8.0	61.1	-92.7
Domestic sales	lakh quintals	21.3	23.7	-10.3	21.1	1.0
Export sales	lakh quintals	0.0	0.4	-	3.5	-
<b>Total sugar sales</b>	<b>lakh quintals</b>	<b>21.3</b>	<b>24.1</b>	<b>-11.8</b>	<b>24.6</b>	<b>-13.4</b>
Average blended realisation	Rs. /kg	35.6	33.2	7.2	34.5	3.1

Source: Company, Sharekhan Research

## Distillery division – Volume and price-led revenue growth

Revenue of the distillery division grew by 10.2% y-o-y to Rs. 298 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 6.3% y-o-y to 4.6 crore litre during the quarter. However, EBIT margins declined from 43.5% in Q1FY2022 to 33.0% in Q1FY2023. BCML has contracted B-heavy ethanol contracts worth 14.82 crore litre so far out of which 12.17 crore litre have been supplied. B-heavy molasses stock stood at 11.34 lakh quintal as on 30th June 2022 against 12.84 lakh quintal as on June 30, 2021.

### Distillery Division's Performance

Operational Data	U.O.M	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Production from B-heavy molasses	Cr. Ltr	4.4	3.8	14.1	4.3	2.6
Production from C-heavy molasses	Cr. Ltr	0.2	0.3	-8.0	0.5	-51.1
<b>Total production</b>	<b>Cr. Ltr</b>	<b>4.6</b>	<b>4.1</b>	<b>12.7</b>	<b>4.7</b>	<b>-2.7</b>
Ethanol sales from B-heavy route	Cr. Ltr	4.4	4.1	6.1	4.4	-1.4
Ethanol sales from C-heavy route	Cr. Ltr	0.2	0.2	9.5	0.3	-17.9
<b>Total ethanol sales</b>	<b>Cr. Ltr</b>	<b>4.6</b>	<b>4.3</b>	<b>6.3</b>	<b>4.7</b>	<b>-2.3</b>
Avg. ethanol realisation from B-heavy route	Rs. / Ltr	59.1	57.6	2.6	59.1	0.0
Avg. ethanol realisation from C-heavy route	Rs. / Ltr	46.7	45.7	2.1	46.7	0.0

Source: Company, Sharekhan Research

### Capacity expansion on track

Work on modernisation and upgradation of sugar factories is on track and the facilities are expected to come on stream from December 2022. 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 December 2022. Post expansion, the company's distillation capacity would be ~35 crore litres.

### Results (Consolidated)

Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
<b>Total revenue</b>	<b>1,080.1</b>	<b>1,140.6</b>	<b>-5.3</b>	<b>1,279.6</b>	<b>-15.6</b>
Raw material cost	890.4	852.0	4.5	728.5	22.2
Employee cost	74.0	65.6	12.7	88.9	-16.8
Other expenses	71.4	88.8	-19.6	131.2	-45.6
Total operating expenses	1,035.7	1,006.4	2.9	948.6	9.2
<b>Operating profit</b>	<b>44.4</b>	<b>134.2</b>	<b>-66.9</b>	<b>331.0</b>	<b>-86.6</b>
Other income	14.5	5.2	-	11.8	23.3
Interest expense	13.8	13.1	5.6	7.8	77.9
Depreciation	28.2	29.3	-3.7	28.4	-0.7
<b>Profit before tax</b>	<b>16.9</b>	<b>97.0</b>	<b>-82.6</b>	<b>306.6</b>	<b>-94.5</b>
Tax	5.5	25.0	-78.1	64.0	-91.4
<b>Adjusted PAT (before MI)</b>	<b>11.4</b>	<b>72.0</b>	<b>-84.2</b>	<b>242.6</b>	<b>-95.3</b>
Minority interest (MI)	1.0	5.1	-80.3	-0.9	-
Exceptional item	0.0	0.0	-	-1.2	-
<b>Reported PAT</b>	<b>12.4</b>	<b>77.0</b>	<b>-83.9</b>	<b>240.5</b>	<b>-94.9</b>
<b>EPS (Rs.)</b>	<b>0.6</b>	<b>3.7</b>	<b>-83.9</b>	<b>11.5</b>	<b>-94.9</b>
			<b>bps</b>		<b>bps</b>
GPM (%)	17.6	25.3	-773	43.1	-
EBIDTA margins (%)	4.1	11.8	-765	25.9	-
NPM (%)	1.1	6.3	-526	19.0	-
Tax rate (%)	32.5	25.8	673	20.9	-

Source: Company, Sharekhan Research

Division wise performance

Rs cr

Particular	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Sugar	914	944	-3.2	1,173	-22.1
Distillery	298	271	10.2	303	-1.6
Others	7	3	-	8	-9.0
<b>Total</b>	<b>1,220</b>	<b>1,218</b>	<b>0.2</b>	<b>1,484</b>	<b>-17.8</b>
Less: Inter segment revenue	140	77	80.9	205	-31.7
<b>Revenue from operations</b>	<b>1,080</b>	<b>1,141</b>	<b>-5.3</b>	<b>1,280</b>	<b>-15.6</b>

Source: Company, Sharekhan Research

Division wise PBIT margins

in %

Particular	Q1FY23	Q1FY22	BPS (YoY)	Q4FY22	BPS (QoQ)
Sugar	-6.1	0.7	-682	19.5	-
Distillery	33.0	43.5	-	34.6	-161
Others	49.7	49.7	-4	57.3	-761
<b>Total</b>	<b>3.8</b>	<b>10.3</b>	<b>-653</b>	<b>22.8</b>	<b>-</b>

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Rise in supply for ethanol manufacturing to drive growth

As per the ISMA's latest estimates for SY2022-SY2023, total sugarcane production is estimated at 35.5 million tonnes (net of diversion to ethanol). Diversion to ethanol will be ~4.5 million tonnes. With consumption expected at 27 million tonne, surplus sugar in the next season is expected at 6-7 million tonnes. Average blending percentage in India stands at 9.82% till April 24, 2022, which is expected to improve in the next sugar season. Sugar realisations are expected to be stable with government expected to take care of surplus inventory by allowing exports of sugar or higher diversion for ethanol production. Industry supplied 445.2 crore litres till July 17, 2022 and in the next year 2022-23, it is estimated that 545 crore litres of ethanol would be required and supplied since the target of 12%. 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 inventory over the medium term.

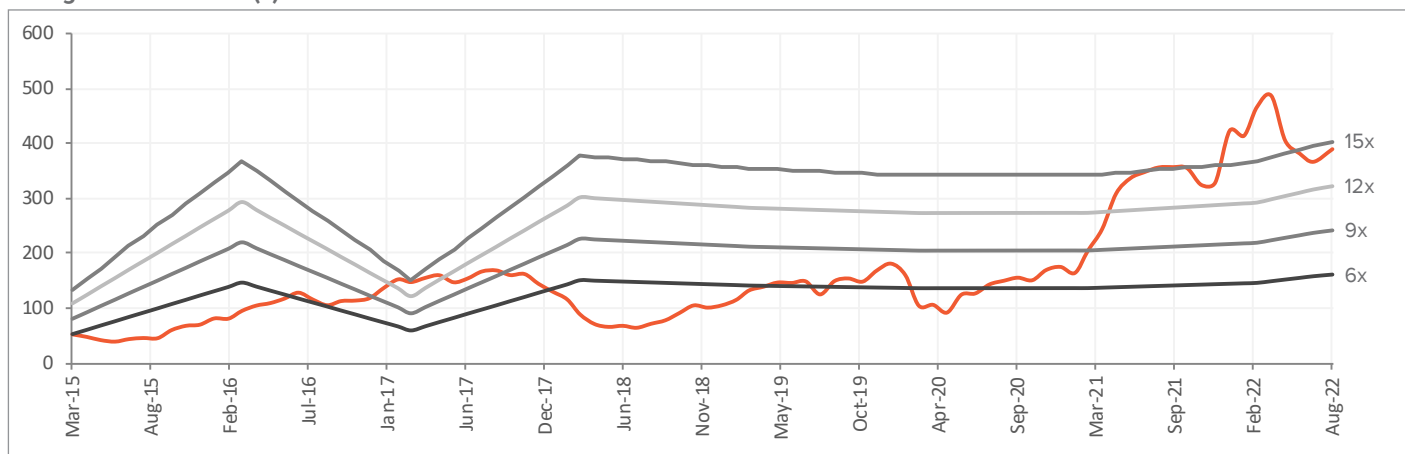
### ■ Company Outlook – Higher ethanol sales to boost profitability in FY2024

Q1FY2023 was hit by lower sugar volume due to lower quota by the Government for sale of sugar. However, the effect was partly mitigated on account of higher sugar realisation and higher volumes and realizations in the distillery segment. The company has undertaken measures such as increasing sugarcane plantation and cane area in key regions by 8%, playing on varieties to reduce weather vagaries/disease management and 50% cane crushed under ratoon management. This will help the company's sugar production to improve close to FY2021 levels in FY2024. Ethanol production is expected to increase to 35 crore litres by FY2024 due to capacity enhancements underway. Overall, BCML's revenue and PAT are expected to grow at 12% and 15%, respectively, over FY2022-FY2024.

### ■ Valuation – Retain Buy with a revised PT of Rs. 420

Strong growth in distillery business will help BCML consistently improve profitability in the long run. We like the company's focus on improving the growth prospects by playing on its strategy of maximising value accruals from each tonne of cane crushed. With an expected improvement in the cash flows, the company is focusing on becoming debt-free by FY2024/FY2025. The management has maintained its stance on improving shareholders value by generating higher cash flows in the coming years. The stock trades at an attractive valuation of 14.4x/11.5x its FY2023E/FY2024E earnings. We maintain our Buy recommendation on the stock with a revised price target (PT) Rs. 420.

#### 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	18.6	12.7	14.6	11.6	11.2	11.7	17.7	17.9	14.3
Dhampur Sugar Mills	10.5	9.7	7.3	8.2	8.3	6.6	11.2	13.8	16.4
Balrampur Chini	15.3	14.4	11.5	16.8	16.5	18.4	16.8	16.5	18.4

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 77,500 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 175.7 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 Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Aadi Financial Advisors	5.26
2	Nippon Life India Asset Management Compa-ny	4.39
3	L & T Mutual Fund Trustee India	3.06
4	Bhansali Pankhidevi	2.23
5	Vanguard Group Inc	2.15
6	Goldman Sachs Group Inc	1.94
7	Dimensional Fund Advisors LP	1.75
8	Goldman Sachs India Pvt Ltd	1.71
9	Kotak Mahindra AMC	1.41
10	Emirate of Abu Dhabi United Arab Emirates	1.38

Source: Bloomberg

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## 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 deteriorating 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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**Registered Office:** Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

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