



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 Oct 08, 2022

High Risk

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

Source: Morningstar

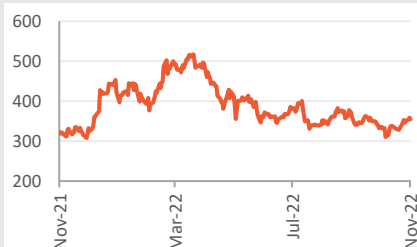
Company details

Market cap:	Rs. 7,529 cr
52-week high/low:	Rs. 526 / 300
NSE volume: (No of shares)	26.7 lakh
BSE code:	500038
NSE code:	BALRAMCHIN
Free float: (No of shares)	11.7 cr

Shareholding (%)

Promoters	42.4
FII	16.2
DII	18.2
Others	23.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.1	8.8	-5.2	15.6
Relative to Sensex	6.6	4.0	-20.4	9.1

Sharekhan Research, Bloomberg

Balrampur Chini Mills Ltd

Growth prospects improve with increased ethanol capacity

Miscellaneous

Sharekhan code: BALRAMCHIN

Reco/View: Buy



CMP: Rs. 369

Price Target: Rs. 425



Upgrade



Maintain



Downgrade

Summary

- We reiterate our Buy recommendation on Balrampur Chini Mills Limited (BCML) with a revised PT of Rs. 425. The stock trades at 13.9x and 12.2x its FY2024E and FY2025E earnings, respectively.
- Commencement of Maizapur distillery unit led to increased distillery capacity to 880KLPD from 560KLPD earlier (another 170KLPD will be added by Q3). Distillery contribution will go up to 30% from 20% in FY2022 with a production of 35cr litre in FY2023.
- The government has allowed 6mn tonne of sugar exports in the first tranche and another 2-4mn tonne will be allowed by the end of the sugar season. BCML has already contracted for 70% of allocated exports of 1.99lakh.
- With an 8% increase in expected higher yields, higher export sales and rising contribution from the distillery business, H2FY2023 performance is expected to be much better compared with H1FY2023.

Balrampur Chini Mills Limited's (BCML) H1FY2023 performance was affected by lower cane crushing volumes, rise in SAP cost, and higher fixed costs, which affected profitability. The company has undertaken enhanced cane development activities along with insect, pest, and disease control activities, which will help it to see higher cane production compared with the last season (despite marginal loss caused by unseasonal rains at the beginning of the year). Sugar realisations are expected to remain at around Rs. 36 per kg in the near term. Increased distillery capacity to 880KLPD (1050KLPD by the end of Q3FY2023) will help in higher contribution from distillery revenue. Overall, we should expect better H2FY2023 compared with H1FY2023. Enhanced capacity will lead to increased ethanol production to 35crore litre from 16-17crore litre earlier.

- Good outlook for sugar season 2022-2023:** Despite unseasonal rains in October 2022, management has maintained a good outlook for the sugar season with production volumes expected to touch FY2020 levels, driven by a 7-8% increase in the area under cultivation, enhanced cane-development activities to reduce the risk of pest attacks, and increased mix of high-yield variety of sugar. Higher domestic consumption and exports sales would help in registering better sales volume in H2FY2023 and would cover up the loss achieved in H1FY2023. The government has allowed sugar exports of 6mn tonne in the first tranche and would allow additional 2-4mn tonne in the second tranche in sugar year 2022-2023. Overall, sugar division sales are expected to remain flat in FY2023 and would increase in low-single digits in FY2024. Realisations are expected to remain at around Rs. 36 per kg.
- Commencement of Maizapur distillery will drive ethanol production:** The company commenced commercial production of industrial alcohol in its new distillery at Maizapur Unit, with a capacity of 320 KLPD. This led to increased distillery capacity of the company to 880KLPD from 560KLPD earlier. Another addition of 170KLPD will happen in the coming months. By the end of Q3FY2023, the company's total distillery capacity will be 1050KLPD. The company's ethanol production is likely to touch 35crore litre in FY2024 from 16-17crore litre earlier. The distillery business's revenue mix will improve to 30 % by FY2024 from 20% in FY2022, which will help overall margin mix to improve by FY2024.
- EBIDTA margin to consistently improve in FY2024 and FY2025; Free cash flows to improve:** FY2023 EBIDTA margin is likely to be impacted by multiple factors: 1) lower sugar production, 2) increased SAP price in Uttar Pradesh; and 3) higher fuel and power cost. However, with better yields in the core sugar business and increased contribution from the ethanol business, EBIDTA margin is expected to consistently improve by 13-14% by FY2024/FY2025. Strong expansion in profitability and stable margins would help the company to generate higher free cash over the next two to three years. The company will utilise it for its future growth prospects and reward investors in the form of higher dividend payout/buyback.

Our Call

View: Retain Buy with a revised PT of Rs. 425: Strong growth in the distillery business will help BCML to consistently improve its profitability in the long run. We like the company's focus on improving its growth prospects by playing on its strategy of maximising value accruals from each tonne of cane crushed. With an expected improvement in cash flows, the company is focusing on becoming debt-free by FY2024/FY2025. 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 13.9x/12.2x its FY2023E/FY2024E earnings. We maintain our Buy recommendation on the stock with a revised price target (PT) Rs. 425.

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	FY25E
Revenue	4811.7	4846.0	4921.8	5724.6	6173.4
OPM (%)	14.8	14.4	8.2	13.5	14.0
Adjusted PAT	479.8	465.8	246.1	540.4	614.9
% YoY growth	-8.5	-3.2	-51.9	131.6	15.2
Adjusted EPS (Rs.)	22.8	22.8	12.1	26.5	30.1
P/E (x)	16.2	16.2	30.6	13.9	12.2
P/B (x)	3.0	2.7	2.7	2.4	2.1
EV/EBIDTA (x)	12.7	12.6	21.9	11.1	9.8
RoNW (%)	18.3	16.8	8.2	17.6	17.9
RoCE (%)	15.7	15.3	8.1	17.4	18.7

Source: Company; Sharekhan estimates

Government allows exports of 6mn tonne; Likely to allow additional 2-4mn tonne

As a measure to balance the price stability of sugar in the country, Government of India has allowed export of sugar up to 6mn tonne in the first tranche during the sugar season 2022-2023. In the sugar export policy for SS 2022-2023, the government has announced sugar mill-wise export quota for all sugar mills in the country with an objective system based on average production of sugar mills in the last three years. Sugar mills have already contracted for 4mn tonne of exports, out of the total quantity allowed for exports. BCML has been allocated export quota of 1.99 lakh tonne against which 1.4 lac tonne has already been contracted for physical exports. The government is likely to announce additional exports of 2-4mn tonne, which will lead to total sugar exports of 8-10mn tonne by the end of SS 2022-2023. International sugar prices had touched the lows of 16.8 cents/lbs (per pound) and are currently trading at around 18.78 cents/lbs. The industry is expecting international sugar prices to remain high close to 20 cents/lbs to narrow the demand-supply gap in the international market. Overall, Indian sugar companies are expected to achieve higher export realisation for their exported volumes.

Commencement of Maizpur distillery will drive ethanol production

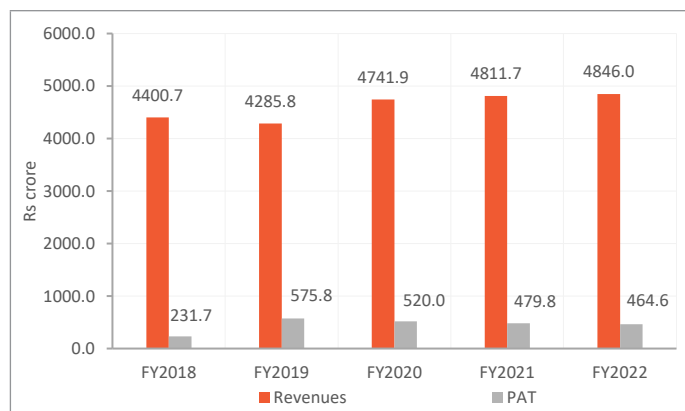
BCML commenced commercial production of industrial alcohol in its new distillery at Maizapur Unit, with a capacity of 320 KLPD. This led to increased distillery capacity of the company to 880KLPD from 560KLPD earlier. Another addition of 170KLPD will happen in the coming months. By the end of Q3FY2023, the company's total distillery capacity will be 1050KLPD. The company's ethanol production is likely to touch 35crore litre in FY2024 from 16-17crore litre earlier. The distillery business's revenue mix will improve to 30% from 20% in FY2022, which will help overall margin mix to improve by FY2024. Contribution of the distillery business to overall EBIDTA stood at close to 60% in FY2022 which is expected to increase above 80% in FY2023. Thus, it will give a boost to overall EBIDTA margins, which are expected to increase to 13-14% by FY2024 and FY2025.

H2FY2023 will be much better compared to H1

BCML's net revenue decreased by 6.8% y-o-y to Rs. 2193.1 crore in H1FY2023, while EBIDTA stood lower at 1.3% compared to 11.4% in H1FY2022. H1FY2023 performance was affected by lower cane crushing volumes, lower export sales, rise in SAP cost, and higher fixed costs, which affected profitability. With the commencement of a new distillery facility at Maizpur and better sugar production in the current sugar season, BCML is expected to report a strong operating performance in H2FY2023 compared with H1FY2023 on account of strong growth in the distillery business's revenue.

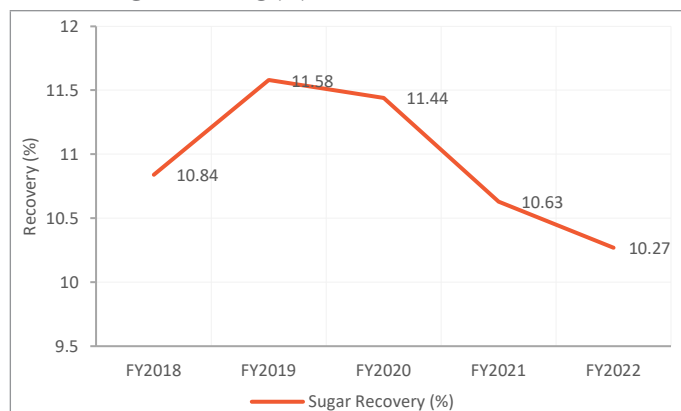
Financials in charts

Trend in revenues and PAT



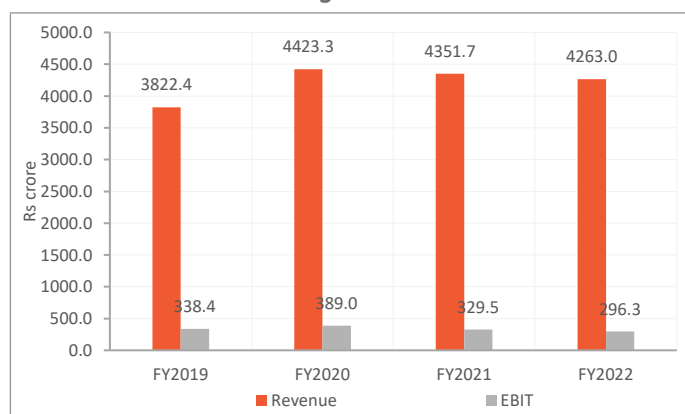
Source: Company, Sharekhan Research

Trend in sugar recovery (%)



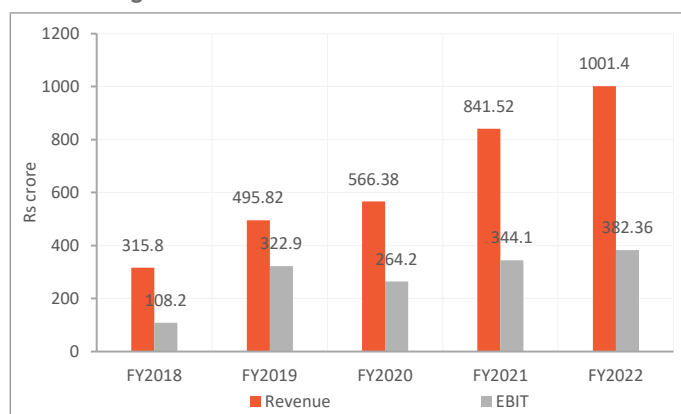
Source: Company, Sharekhan Research

Trend in overall EBITDA margins



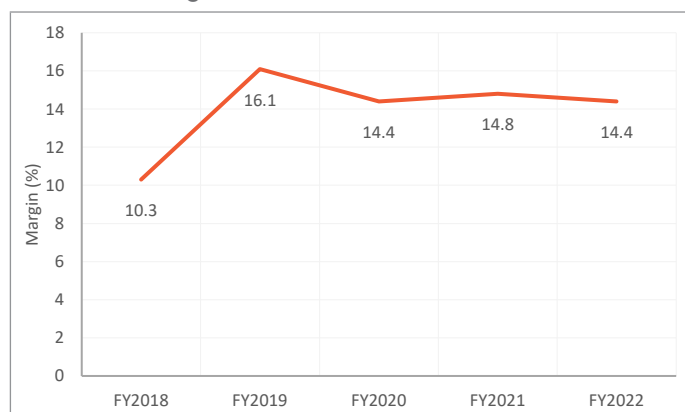
Source: Company, Sharekhan Research

Trend in sugar division revenues and EBIT



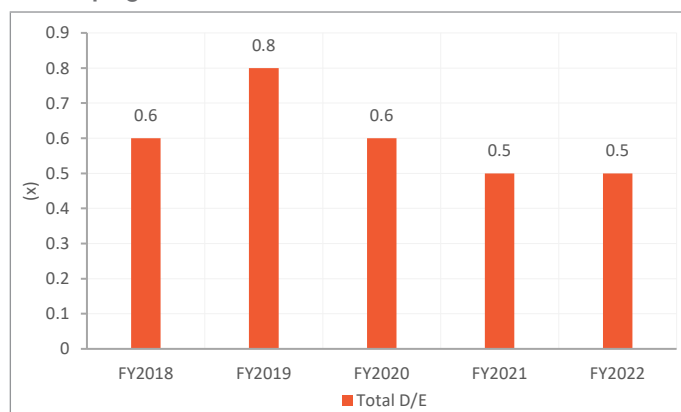
Source: Company, Sharekhan Research

Trend in distillery division revenues and EBIT



Source: Company, Sharekhan Research

Debt/equity ratio



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Rise in the supply of ethanol manufacturing to drive growth

As per ISMA's latest estimates for SY2022-SY2023, total sugarcane production is estimated at 35.5 million tonne (net of diversion to ethanol). Diversion to ethanol will be ~4.5 million tonne. With consumption expected at 27 million tonne, surplus sugar in the next season is expected at 6-7 million tonne. Average blending percentage in the country stands at 9.82% till April 24, 2022, which is expected to improve in the next sugar season. Sugar realisation is expected to be stable with the government expected to take care of surplus inventory by allowing exports of sugar or higher diversion for ethanol production. 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.

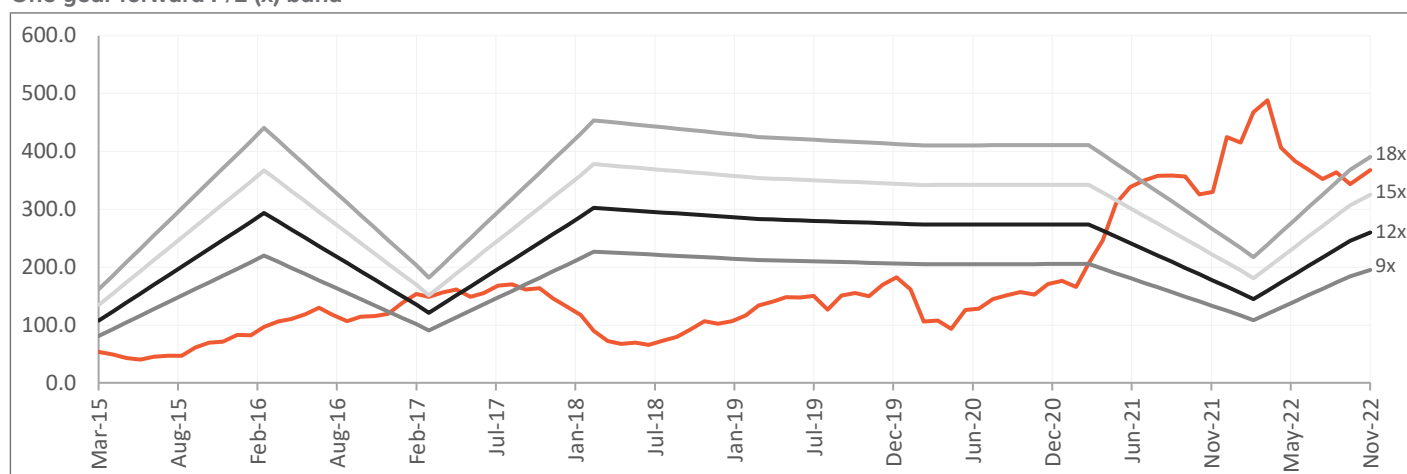
■ Company Outlook – Higher ethanol sales to boost profitability in FY2024

H1FY2023 was hit by lower sugar volume due to reduced quota by the government for the sale of sugar. However, the effect was partly mitigated on account of higher sugar realisation and increased volumes and realisations 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 litre 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. 425

Strong growth in the distillery business will help BCML to consistently improve its profitability in the long run. We like the company's focus on improving its growth prospects by playing on its strategy of maximising value accruals from each tonne of cane crushed. With an expected improvement in cash flows, the company is focusing on becoming debt-free by FY2024/FY2025. 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 13.9x/12.2x its FY2023E/FY2024E earnings. We maintain our Buy recommendation on the stock with a revised price target (PT) Rs. 425.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Triveni Engineering	15.6	21.4	14.9	13.2	13.2	9.5	24.8	11.5	12.1
Balrampur Chini	16.2	30.6	13.9	12.6	21.9	11.1	15.3	8.1	17.4

Source: Company, Sharekhan estimates

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 MW. 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 cyclicity 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 the revenue mix will improve the cash conversion cycle with debt reduction. The company is likely to generate a 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 a 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Aadi Financial Advisors	5.26
2	Nippon Life India Asset Management Company	4.68
3	Bhansali Pankhidevi	2.85
4	Dimensional Fund Advisors LP	1.90
5	Vanguard Group Inc	1.89
6	Goldman Sachs Group Inc.	1.78
7	L & T Mutual Fund Trustee India	1.52
8	Goldman Sachs India Pvt. Ltd.	1.40
9	Emirate of Abu Dhabi United Arab Emirates	1.41
10	Fund Rock Management CO SA	1.32

Source: Bloomberg (old data)

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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

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