Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Balrampur Chini Mills Ltd

Strong Q1; improved outlook for FY24

Miscellaneous	Sharekhan code: BALRAMCHIN
Reco/View: Buy ↔	CMP: Rs. 403 / Price Target: Rs. 475 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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 Jul 08, 2023

High Risk

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

Source: Morningstar

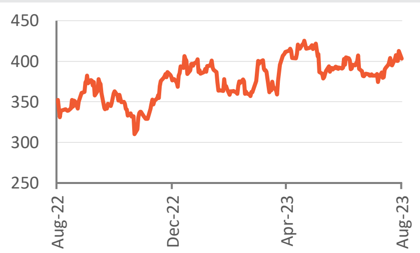
Company details

Market cap:	Rs. 8,135 cr
52-week high/low:	Rs. 431 / 307
NSE volume: (No of shares)	17.3 lakh
BSE code:	500038
NSE code:	BALRAMCHIN
Free float: (No of shares)	11.5 cr

Shareholding (%)

Promoters	42.9
FII	14.6
DII	21.3
Others	21.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.5	-2.6	12.4	15.0
Relative to Sensex	4.5	-9.4	3.4	2.0

Sharekhan Research, Bloomberg

Summary

- Balrampur Chini Mills's (BCML's) Q1FY2024 numbers were strong, led by higher volumes and realisation in both sugar and distillery businesses. Revenue and PAT grew by 29% and 5x y-o-y, respectively, while EBITDA margin improved by 763 bps y-o-y.
- Management expects a further 10% increase in crushing in SS 23-24 (over ~16% increase achieved in SS 22-23). EBITDA margins are likely to improve due to better sugar recovery.
- Post capacity expansion, ethanol production capacity is expected to be at 35 crore litre. The company targets 31-32 crore litre production (lower due to FCI rice procurement issue) and 28-29 core litre sales for FY24.
- Stock trades at 15x/13x its FY2024E/FY2025E earnings. We maintain a Buy with an unchanged price target of Rs. 475.

BCML posted a strong performance in Q1FY2024 with 5x y-o-y growth in PAT to Rs. 68 crore driven by 28.7% y-o-y growth in revenue to Rs. 1,389.6 crore along with sharp 763 bps y-o-y improvement in EBITDA margin to 11.7%. The strong performance was aided by higher volume in sugar and distillery businesses coupled with higher realisations. Sugar business revenue grew by 22% y-o-y, driven by an 11.9% y-o-y increase in volume and a 3.5% rise in realisation, while distillery business revenue grew by 56% y-o-y aided by 42.5% y-o-y increase in volume and a 7.7% rise in realisation. Gross margin improved by 801 bps y-o-y to 25.6%, while EBITDA margin improved by 763 bps y-o-y to 11.7%. Sugar business EBIT margin came in at 6.4% versus loss in Q1FY2023 due to lower cost of production. Distillery business margins fell to 18.2% versus 33% in Q1FY2023 due to higher transfer pricing of feedstock. The management expects 2,000 TCD capacity expansion at Kumbhi facility to be commissioned in November 2023.

Key positives

- Sugar sales volume increased by 11.9% y-o-y; Sugarcane crushed came in at 139.6 lakh quintals versus 46.2 lakh quintals in Q1FY2023.
- Total Ethanol sales stood higher by 42.7% y-o-y; average blended ethanol realisation increased by 7.7% y-o-y.
- Gross/EBITDA margin improved by 801 bps/763 bps y-o-y to 25.6%/11.7%, respectively.

Key negatives

- Distillery business margin fell to 18.2% versus 33% in Q1FY2023 due to higher transfer pricing of feedstock.
- Interest costs rose to Rs. 33.5 crore (versus Rs. 13.8 crore in Q1FY2023) due to ~Rs. 630 crore increase debt y-o-y.

Management Commentary

- As per BCML's internal estimates, sugar production in SS 23-24 is estimated at 32.5 million tonnes (post diversion to ethanol) and consumption is estimated at 28 million tonnes. Thus, with opening and closing inventory expected at 5.95 million tonnes each, provides an opportunity for exports to the tune of 4.5 million tonnes in SS 23-24.
- Management expects a further 10% increase in crushing in SS 23-24 (over ~16% increase achieved in SS 22-23) subject to conducive weather conditions aided by BCML's efforts to improve the quality of the cane and enhance acreage and yield.
- Management has indicated that out of the contracted quantity of 8.3 crore litre from syrup route, 7.1 crore litre has already been procured by the OMCs. Though supply to OMCs was lower in Q1, the company has seen a pickup in lifting in July & August. Management has stated that whatever quantity of ethanol is tendered for will be lifted.
- For FY24, ethanol production capacity is expected to be 35 crore litre (considering the expanded capacity). The company is targeting 31-32 crore litre production (lower due to FCI rice issue) (juice - 11 crore litre, B-heavy - 13 crore litre, FCI - 4 crore litre and balance form ENA) and 28-29 core litre sales for FY24.
- Broken rice prices have sharply escalated in the past few months. The government has thus announced an incentive of Rs. 4.75 per litre on ethanol supplied from broken rice from 7th August up to 31st October. This would help to lower the loss.
- Management expects margins to improve in the upcoming SS 23-24, led by better cane availability, enhanced sugar recoveries due to improved varietal balance and higher domestic realisation with moderation of inventory.
- Brownfield capacity expansion at the Kumbhi facility will likely be commissioned in November 2023. Post the capacity expansion, management expects the mix to improve to distillery 35% and sugar 65% (from the current 30% and 70%).

Revision in estimates – We have broadly maintained the estimates for FY2024 and FY2025. We have anticipated ethanol sales of ~30 crore litre, largely in line with management's reduced guidance of 28-29 crore sales for FY2024. EBITDA margins are expected to improve due to better sugar recovery.

Our Call

View: Retain Buy with an unchanged PT of Rs. 475: BCML posted a strong performance in Q1FY2024 with double-digit revenue growth and sharp improvement in profitability. We like the company's focus on improving growth prospects by playing on its strategy of maximising value accruals from each tonne of cane crushed. Further, strong growth in the distillery business will help BCML to consistently improve its profitability in the coming years. With an expected improvement in cash flows, the company is focusing on significantly reducing debt in the coming years. The management has maintained its stance on improving shareholders' value by generating higher cash flows in the coming years. The stock trades at decent valuations of 15x/13x its FY2023E/FY2024E earnings. We maintain a Buy recommendation on the stock with an unchanged PT of Rs. 475.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	4846.0	4665.9	5735.1	6383.3
OPM (%)	14.4	11.0	14.0	14.5
Adjusted PAT	465.8	284.2	528.7	625.3
% YoY growth	-3.2	-42.9	94.7	20.1
Adjusted EPS (Rs.)	22.8	14.1	26.2	31.0
P/E (x)	17.7	28.6	15.4	13.0
P/B (x)	3.0	2.8	2.5	2.3
EV/EBIDTA (x)	13.6	18.4	12.5	10.7
RoNW (%)	16.8	9.6	16.9	18.0
RoCE (%)	15.3	9.7	13.9	15.4

Source: Company; Sharekhan estimates

Strong Q1 – Revenue growth at 29% y-o-y; EBITDA margins higher by 763 bps y-o-y

BCML's revenue grew by 28.7% y-o-y to Rs. 1,389.6 crore in Q1FY2024, higher than our expectation of Rs. 1,315 crore, driven by higher volume in sugar and distillery business coupled with higher realisations. Revenue of the sugar business grew by 22% y-o-y to Rs. 1,116 crore, while distillery business revenue grew by 56% y-o-y to Rs. 466 crore. Gross margin improved by 801 bps y-o-y to 25.6%, while EBITDA margin improved by 763 bps y-o-y to 11.7% (versus our expectation of 5.4%) aided by strong revenue growth, better mix and improved operating efficiencies. The sugar business EBIT margin came in at 6.4% versus loss in Q1FY2023. Distillery business margins fell to 18.2% versus 33% in Q1FY2023 due to higher transfer pricing of feed-stock. EBIDTA grew by 2.7x y-o-y to Rs. 163.2 crore and adjusted PAT increased by 5x y-o-y to Rs. 68 crore against our expectation of Rs. 17 crore.

Sugar business – Strong quarter driven by higher domestic volume and realisation

Sugar business' revenue grew by 22.1% y-o-y to Rs. 1,116.1 crore driven by higher sales volume and higher realisation. Sugar sales volume came in higher by 11.9% y-o-y to 23.8 lakh quintal, while average blended sugar realisations improved by 3.5% y-o-y to Rs. 36.9 per kg. Cane crushing during the quarter was higher at 139.6 lakh quintal versus 46.2 lakh quintal in Q1FY2023 owing to higher cane area and better yield at farm level. Net recovery (net of diversion towards syrup and B-heavy route) stood flat at 9.8%. Production came in higher at 13.7 lakh quintals versus 4.5 lakh quintals in Q1FY2023 aided by higher crushing. BCML had 36.48 lakh quintal sugar inventory, as of June 30, 2023 valued at an average rate of Rs. 33.79 per kg as compared to 41.12 lac quintals as on June 30, 2022 valued at an average rate of Rs. 34.12 per kg. Sugar inventory is lower compared to Q1FY2023 due to aggressive diversion of cane towards B-heavy molasses and syrup routes. Sugar business EBIT margin stood at 6.4% versus loss in Q1FY2023 driven by lower cane cost (down by 12% y-o-y) and lower cost of production (reduced by 33% y-o-y).

Sugar business performance

Particulars	U.O.M	Q1FY24	Q1FY23	y-o-y (%)
Sugarcane crushed	lakh quintals	139.6	46.2	-
Sugar recovery (post B-heavy diversion)	%	9.8	9.7	12
Sugar Production (post B-heavy & Syrup diversion)	lakh quintals	13.7	4.5	-
Cane diversion (B-heavy & Syrup)	lakh quintals	109.4	36.9	-
Sales (including export)	lakh quintals	23.8	21.3	11.9
Average blended realisation	Rs/kg	36.9	35.6	3.5

Source: Company; Sharekhan Research

Distillery business – Revenue 56% higher y-o-y; margins significantly impacted

Revenue of the distillery business grew by 56.3% y-o-y to Rs. 466.1 crore driven by higher volume and higher sales realisation. Total ethanol sales (including ENA and other products) increased by 42.7% y-o-y to 7.4 crore litre, while average blended ethanol realisation increased by 7.7% y-o-y to Rs. 58.3 per litre. However, EBIT margins declined to 18.2% from 33% in Q1FY2023.

Distillery business performance

Particulars	U.O.M	Q1FY24	Q1FY23	y-o-y (%)
Total production	**Cr. BL**	**8.3**	**5.1**	**61.8**
- B-heavy molasses	Cr. BL	4.3	4.4	-2.1
- C-heavy molasses	Cr. BL	1.1	0.0	-
- Syrup & Grain	Cr. BL	1.8	0.0	-
Total ethanol sales	**Cr. BL**	**7.4**	**5.2**	**42.7**
- B-heavy molasses	Cr. BL	3.1	4.4	-30.0
- C-heavy molasses	Cr. BL	2.7	0.0	-
- Syrup & Grain	Cr. BL	0.9	0.0	-
Avg. blended realisation	Rs. / BL	58.3	54.2	7.7

Source: Company; Sharekhan Research

Key conference call highlights

- **SS 2023-24 estimates indicate an opportunity for exports:** As per BCML's internal estimates, sugar production in SS 23-24 is estimated at 32.5 million tonnes (post diversion to ethanol) and consumption is estimated at 28 million tonnes. Thus, with opening and closing inventory expected at 5.95 million tonnes each, provides an opportunity for exports to the tune of 4.5 million tonnes in SS 23-24. Management expects the export announcement to be delayed by couple of months (Jan-Feb'24) due to elections. Ethanol diversion is estimated at 3.9 million in SS22-23 tonnes versus 3.5 million diverted in SS 21-22.
- **Expect increased crushing in SS 23-24:** BCML's efforts to improve the quality of the cane and enhance acreage and yield led to a ~16% increase in crushing during SS 22-23. Management expects a further 10% increase in crushing in SS 23-24 subject to conducive weather conditions on the back of its multiple initiatives. Further, management has indicated that rain pattern has been conducive and impact of insect pest disease has been negligible.
- **Ethanol production expected at 31-32 crore litre for FY24:** Management has indicated that out of the contracted quantity of 8.3 crore litre from syrup route, 7.1 crore litre has already been procured by the OMCs. Though supply to OMCs was lower in Q1, the company has seen a pick up in lifting in July & August. Management has stated that whatever quantity of ethanol is tendered for will be lifted. For FY24, ethanol production capacity is expected to be 35 crore litre (considering the expanded capacity). The company is targeting 31-32 crore litre production (juice - 11 crore litre, B-heavy - 13 crore litre, FCI - 4 crore litre and balance form ENA) and 28-29 core litre sales for FY24. Production is expected to be lower than capacity due to the unavailability of FCI rice in the recent few days.
- **Incentive for broken rice to provide some relief:** As per the management, broken rice prices have seen a sharp escalation in the past few months. The government has thus announced an incentive of Rs. 4.75 per litre on ethanol supplied from broken rice from 7th August up to 31st October. Management has indicated that this incentive would not add to profitability (as Rs. 4 increase in raw material price requires a Rs. 8 plus increase in ethanol price to compensate that increase in raw material price) but would help to lower the loss.
- **Margin expected to improve:** Management expects margins to improve in the upcoming SS 23-24, led by better cane availability, enhanced sugar recoveries due to improved varietal balance and higher domestic realisation with the moderation of inventory.
- **Capacity expansion on track:** Brownfield capacity expansion at the Kumbhi facility is likely to be commissioned with the start of the ensuing season (November 2023). Post the capacity expansion, management expects the mix to improve to distillery 35% and sugar 65% (from the current 30% and 70%).

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Total revenue	**1,389.6**	**1,080.1**	**28.7**	**1,491.5**	**-6.8**
Raw material cost	1,034.2	890.4	16.2	838.8	23.3
Employee cost	88.9	74.0	20.2	101.0	-12.0
Other expenses	103.3	71.4	44.8	147.8	-30.1
Total operating expenses	1,226.4	1,035.7	18.4	1,087.6	12.8
Operating profit	**163.2**	**44.4**	**-**	**403.9**	**-59.6**
Other income	12.2	14.5	-15.9	16.3	-25.2
Interest expense	33.5	13.8	-	21.1	58.6
Depreciation	40.6	28.2	43.8	40.2	1.0
Profit before tax	**101.3**	**16.9**	**-**	**358.9**	**-71.8**
Tax	33.2	5.5	-	109.8	-69.7
Adjusted PAT (before MI)	**68.1**	**11.4**	**-**	**249.1**	**-72.7**
Minority interest (MI)	5.4	1.0	-	5.3	2.3
Reported PAT	**73.5**	**12.4**	**-**	**254.4**	**-71.1**
EPS (Rs.)	**3.6**	**0.6**	**-**	**12.6**	**-71.4**
			bps		**bps**
GPM (%)	25.6	17.6	801	43.8	-
EBIDTA margin (%)	11.7	4.1	763	27.1	-
NPM (%)	4.9	1.1	384	16.7	-
Tax rate (%)	32.8	32.5	30	30.6	221

Source: Company; Sharekhan Research

Business-wise performance Rs cr

Particular	Q1FY24	Q1FY23	y-o-y (%)
Sugar	1,116	914	22.1
Distillery	466	298	56.3
Others	5	7	-31.7
Total	**1,587**	**1,220**	**30.1**
Less: Inter segment revenue	-198	-140	41.4
Revenue from operations	**1,390**	**1,080**	**28.7**

Source: Company; Sharekhan Research

Business-wise PBIT margins In (%)

Particular	Q1FY24	Q1FY23	BPS (YoY)
Sugar	6.4	-6.1	-
Distillery	18.2	33.0	-
Others	61.7	49.7	-
Total	**10.0**	**3.8**	**622**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Rise in ethanol output to drive growth

As per the ISMA's latest estimates for SY2022-SY2023, total sugarcane production is estimated at 32.8 million tonnes (net of diversion to ethanol). Diversion to ethanol will amount to ~4 million tonnes. With consumption expected at 27.5 million tonnes, surplus sugar in the next season is expected at 6 million tonnes. India achieved a 10% average blending percentage in June 2022, which is expected to improve in the ongoing sugar season. Sugar realisation is expected to be stable with the government expected to take care of surplus inventory by allowing sugar exports or higher diversion for ethanol production. The government aims to achieve a 20% ethanol blending by 2024-2025, which would largely solve the problem of excess sugar over the medium term.

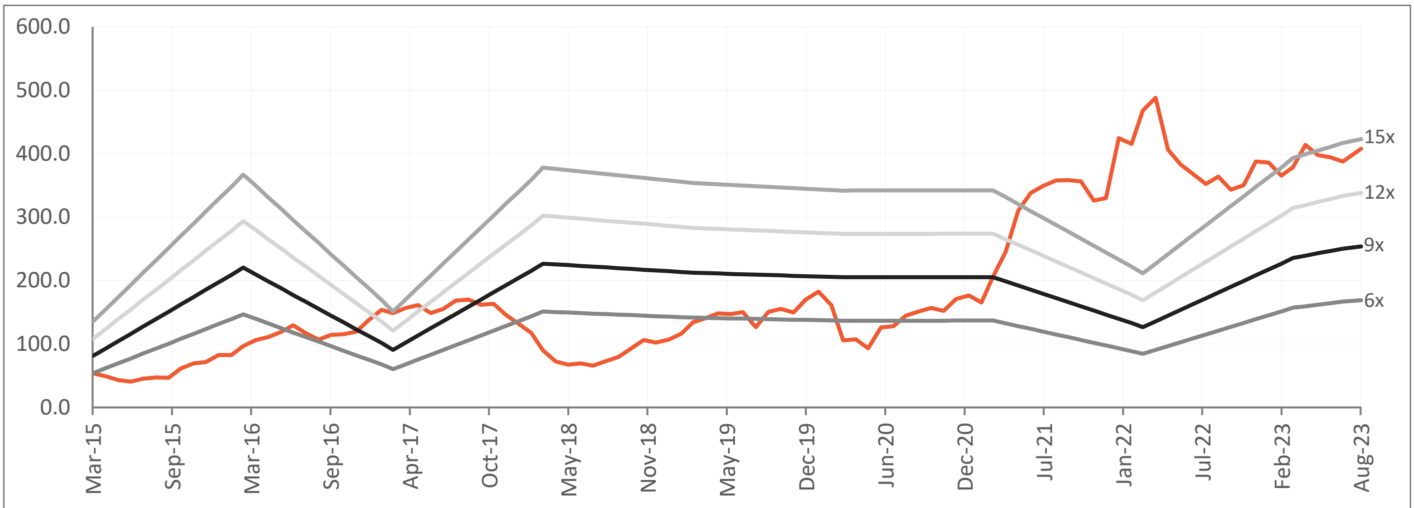
■ Company Outlook – Higher ethanol sales to boost profitability in FY2024

BCML's Q1FY2024 numbers were strong, led by higher volumes and realisation in both sugar and distillery businesses. 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. These efforts helped the company to achieve ~16% increase in crushing in SS 22-23. With continued efforts, management expects a further 10% increase in crushing in SS 23-24. EBITDA margins are likely to improve due to better sugar recovery. In terms of ethanol, ethanol production capacity is expected to be at 35 crore litre post capacity expansion. The company targets 31-32 crore litre production (lower due to FCI rice procurement issue) and 28-29 core litre sales for FY24.

■ Valuation – Retain Buy with an unchanged PT of Rs. 475

BCML posted a strong performance in Q1FY2024 with double-digit revenue growth and sharp improvement in profitability. We like the company's focus on improving growth prospects by playing on its strategy of maximising value accruals from each tonne of cane crushed. Further, strong growth in the distillery business will help BCML to consistently improve its profitability in the coming years. With an expected improvement in cash flows, the company is focusing on significantly reducing debt in the coming years. The management has maintained its stance on improving shareholders' value by generating higher cash flows in the coming years. The stock trades at decent valuations of 15x/13x its FY2023E/FY2024E earnings. We maintain a Buy recommendation on the stock with an unchanged PT of Rs. 475.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Triveni Engineering	16.9	15.0	11.5	12.3	10.5	8.3	16.1	16.0	19.2
Dhampur Sugar Mills	11.9	9.5	8.1	8.6	8.1	6.8	14.2	14.7	15.1
Dhampur Bio Organics	11.3	8.9	8.0	9.4	8.3	7.9	9.1	9.8	9.8
Balrampur Chini	28.6	15.4	13.0	18.4	12.5	10.7	9.7	13.9	15.4

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 a total cane crushing capacity of 80,000 TCD (2,000 TCD expansion under implementation), four distillery units with a collective capacity of 1,050-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 through 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 commissioned in Maizapur and Balrampur Units, the company's distillery capacity for FY2023 will be around 20.5-21 crore litres, while for FY2024, it will be around 35 crore litres. 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. 1,100+ crore over FY2023-FY2025E. With the increase in the ethanol business's contribution, the company's cash flows consistently improve in the coming years. We expect BCML's revenue and PAT to post a CAGR of 17% and 48%, respectively, over FY2023-FY2025E.

Key Risks

- Lower sugar production would impact the company's revenue and be 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

Vivek Saraogi	Chairman-Managing Director
Pramod Patwari	Chief Financial Officer
Manoj Agarwal	Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India Asset Management Company	4.67
2	Kotak Mahindra AMC	2.86
3	Vanguard Group Inc	1.99
4	Dimensional Fund Advisors LP	1.97
5	Goldman Sachs India Pvt Ltd	1.68
6	Emirate of Abu Dhabi United Arab Emirates	1.56
7	Axis AMC	1.45
8	Goldman Sachs India Pvt Ltd	1.41
9	Kotak Mahindra Life Insurance Co	1.37
10	BlackRock Inc	1.35

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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