



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	✓	↔	✓

Company details

Market cap:	Rs. 10,308 cr
52-week high/low:	Rs. 520/343
NSE volume: (No of shares)	20.2 lakh
BSE code:	500038
NSE code:	BALRAMCHIN
Free float: (No of shares)	11.5 cr

Shareholding (%)

Promoters	42.9
FII	13.0
DII	22.6
Others	21.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.0	37.2	37.4	30.7
Relative to Sensex	18.0	28.7	27.1	9.9

Sharekhan Research, Bloomberg

Balrampur Chini Mills Ltd

Muted Q1; better outlook for upcoming season

Miscellaneous

Sharekhan code: BALRAMCHIN

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 511

Price Target: Rs. 615



Summary

- Balrampur Chini Mills' (BCML's) Q1FY2025 numbers were muted due regulatory issues in distillery operations. Its revenues in Q1FY2025 grew by just 2% and reported PAT fell by 5% (EBIDTA margins stood flat at 11.7%).
- Sugar production for SY2024-25 is expected to be at 32 million tonnes. Sufficient inventory at end of SY is 5.5 million tonnes. Additional 6 million tonnes available for ethanol production (4 million tonnes) and sugar exports (2 million tonnes).
- Domestic sugar prices are expected to remain high with expected lower inventory at end of the SY and likely increase in the Sugar MSP.
- Stock trades at 21x and 17x its FY2024E/25E earnings, respectively. We maintain a Buy with a revised PT of Rs. 615.

BCML's Q1FY2025 was muted affected by weak performance of the distillery business impacted by regulatory issues resulting in lower ethanol production. Sugarcane crushing was lower by ~54% and sugar production declined by ~48%. This decrease is owing to lower sugarcane availability during the season, which has also impacted the distillery segment. Further the fixed overheads could not be absorbed fully in this quarter owing to curtailed crushing/season days. Consolidated revenues grew by 2.3% y-o-y to Rs. 1,422 crore driven by 3% growth in the sugar volumes and a 5% growth in sugar realisations. EBIDTA margins stood flat y-o-y at 11.7%. EBIDTA grew by 2% y-o-y to Rs. 166 crore. Reported PAT decreased by 4.6% y-o-y to Rs. 70 crore.

Key positives

- Sugar sales volumes and realisation grew by 3.1% and 5.5% respectively.
- Distillery business' EBIT margins rose by 96 bps y-o-y to 19.1%.

Key negatives

- Sugar crushing was lower by ~54% y-o-y and sugar production declined by ~48% y-o-y.
- Distillery production was by 13.5% y-o-y to 7.18 crore BL.

Management Commentary

- Sugar inventory is expected at 8.55 million (mn) tonnes at end of the current sugar season (SS) 2023-24. The company expects sugar production (pre-diversion) is expected to be 32mn tonnes (ISMA expects 33.3mn tonnes) for SS 2024-25 and domestic consumption is expected to be at 29mn tonnes.
- Closing stock of 5-5.5mn tonne is sufficient in the system. Additional inventory of around 6mn tonnes provides enough headroom to the Government to carry on ethanol blending (4mn tonnes) and possibly leave room for exports (of ~2mn tonnes).
- Lower diversion of cane towards Gur-Khandsari and better yield should translate to higher cane availability in the state of Uttar Pradesh (U.P.).
- Domestic sugar prices currently stand at Rs. 38.5-39/kg ex-factory. Prices are expected to remain buoyant in expectation of lower sugar inventory at the end of the year. Further possibility of MSP price hike will also keep domestic sugar prices firm.
- Internationally, raw sugar prices touched the lows of 18 cents/lb. Management does not expect any further fall in the raw sugar prices. If cane production in Brazil drops due to weather vagaries, then the raw sugar prices might see some uptick in SY2024-25.
- The company expects ethanol prices to fall back to 2022-23 price regime in the upcoming sugar season.
- The company is making healthy progress on cane-based Polylactic Acid (PLA) project and invested ~Rs. 299.8 crore till June-24 through internal accruals. PLA facility is expected to be operational from October-November 2026.

Revision in estimates - We have reduced our earnings estimates for FY2025E and FY2026E by 5.5% and 6% respectively to factor in a higher tax rate than earlier estimated. In Q1FY25 the tax rate stood at 33.9%.

Our Call

View - Retain Buy with a revised PT of Rs. 615: We like BCML among the sugar companies because of its strong balance sheet, which will take care of near-term headwinds. Better yields from new sugar variants and steady growth in realisation will drive sugar business performance in the near term. Distillery business performance is expected to fully recover by FY2026. The stock is currently trading at 21x/17x its FY2025E/FY26E earnings, respectively. We maintain our stance of preferring large sugar companies with better balance sheets in an uncertain environment. We maintain our Buy rating on the stock with a revised PT of Rs. 615.

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)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	4,665.9	5,593.7	6,029.7	6,852.4
OPM (%)	11.0	14.1	15.0	15.2
Adjusted PAT	284.2	427.6	492.3	619.3
% YoY growth	-42.9	55.5	16.6	28.4
Adjusted EPS (Rs.)	14.1	21.2	24.4	30.7
P/E (x)	36.3	24.1	20.9	16.6
P/B (x)	3.6	3.0	2.7	2.3
EV/EBIDTA (x)	22.5	15.4	13.6	11.7
RoNW (%)	9.6	12.8	13.6	15.1
RoCE (%)	9.9	12.6	13.2	14.3

Source: Company; Sharekhan estimates

Muted Q1 – Revenue grew 2.3% y-o-y; EBITDA margin flat y-o-y at 11.7%

BCML's revenues grew by 2.3% y-o-y to Rs. 1,422 crore, against our expectation of Rs. 1,432 crore. Revenue growth was driven by higher volumes and realizations in the sugar business which was partly offset by lower volumes in the distillery business. Distillery business revenue declined by 9% y-o-y to Rs. 424 crore, while sugar business revenue grew marginally by 1.4% y-o-y Rs. 1,132 crore. EBITDA margins stood almost flat y-o-y to 11.7% (better than our expectation of 11%). Sugar business margins improved marginally by 21 bps y-o-y to 6.6%, while distillery business margins improved by 96 bps to 19.1%. EBITDA grew by 2% y-o-y to Rs 166 crore, while reported PAT declined by 4.6% y-o-y to Rs. 70 crore, against our expectation of Rs. 62 crore.

Sugar business – Revenue up by 1.4% y-o-y; margins up by 21 bps y-o-y

- Revenues marginally grew by 1.4% y-o-y to Rs. 1,332 crore, mainly due to higher sales volume and increased average realisations y-o-y.
- Sales volumes rose by 3.1% y-o-y to 24.55 lakh quintal, while average blended sugar realisations rose by 5.5% y-o-y to Rs. 38.88 per kg.
- In Q1FY2025, sugarcane crushing fell by 54% y-o-y to 64.2 lakh quintals and sugar production declined by 47.9% owing to lower sugarcane availability during the season.
- Sugar recovery (net of diversion to Syrup and B-heavy route) improved to 11.15% versus 9.84%.
- BCML carried forward higher inventory of 51.2 lakh quintals as of June 30, 2024 valued at Rs. 34.88 per kg. versus 41.1 lakh quintal valued at Rs.33.79 per kg. in Q1FY2024.
- The cost of production went up by 30.8% y-o-y to Rs. 4,499 per quintal primarily on account of increase in cane prices of Rs. 20 per quintal.
- Sugar business' EBIT margins marginally improved by 21 bps y-o-y to 6.6%.
- For the upcoming season, the IMD is forecasting a normal monsoon which will aid to better yields. Lower diversion of cane towards Gur - Khandsari and better yield should translate to higher cane availability in UP. In contrast, lower cane is expected in Maharashtra and Karnataka due to lower acreage.

Sugar business performance

Particulars	U.O.M	Q1FY25	Q1FY24	y-o-y (%)
Sugarcane crushed	lakh quintals	64.20	139.60	-54.0
Sugar recovery (pre diversion)	%	12.18	11.82	36
Sugar recovery (post diversion)	%	11.15	9.84	131
Sugar Production (post diversion)	lakh quintals	7.16	13.74	-47.9
Cane diversion (B-heavy & Syrup)	lakh quintals	40.68	109.39	-62.8
Sales	lakh quintals	24.55	23.80	3.2
Average blended realisation	Rs./kg	38.88	36.85	5.5

Source: Company, Sharekhan Research

Distillery business – Revenue fell by 9% y-o-y; margins up by 96 bps y-o-y

- Revenues fell by 9% y-o-y to Rs. 424 crore, due to lower volume and realisation.
- Total ethanol sales (including ENA and other products) declined by 7% y-o-y to 6.85 crore litres, while average blended ethanol realisation fell by 2.2% y-o-y to Rs. 57.04 per litre.
- Ethanol production (including ENA and other products) fell by 13.4% y-o-y to 7.18 crore litres.
- EBIT margins improved by 96 bps y-o-y to 19.1%.
- In terms of supply to OMCs, the company has contracted 19.88 crore litre for the full year under ESY 2023-24.

Distillery business performance

Particulars	U.O.M	Q1FY25	Q1FY24	y-o-y (%)
Total production	Cr. BL	7.18	8.29	-13.4
Total sales	Cr. BL	6.86	7.38	-7.0
Avg. blended realisation	Rs./BL	57.04	58.33	-2.2

Source: Company, Sharekhan Research

Update on PLA Project

- ◆ BCML has acquired ~86.67 acres of land till date for setting up India's first Poly Lactic Acid (PLA) plant of 75,000 tonnes capacity.
- ◆ Contracts for foreign technology partners - Sulzer & Alpine has been executed. EPMC contract has been executed with Jacobs Solutions.
- ◆ Till June 30, 2024 ~Rs. 300 crore have been spent from internal accruals. The company is in advanced stage of achieving financial closure to raise debt for the project.
- ◆ BCML has applied for Environmental Clearance. ToR has been granted. Expected COD is October 2026.

Results (Consolidated)

Particulars	Q1FY25	Q1FY24	y-o-y (%)	Q4FY24	q-o-q (%)
Total revenue	1,421.6	1,389.6	2.3	1,434.3	-0.9
Raw material cost	1,065.6	1,034.2	3.0	816.4	30.5
Employee cost	91.9	88.9	3.4	107.7	-14.7
Other expenses	97.9	103.3	-5.2	165.4	-40.8
Total operating expenses	1,255.5	1,226.4	2.4	1,089.5	15.2
EBITDA	166.1	163.2	1.8	344.7	-51.8
Other income	7.7	12.2	-37.0	4.3	78.4
Interest expense	36.0	33.5	7.5	25.0	44.2
Depreciation	42.6	40.6	5.0	42.6	0.0
Profit before tax	95.2	101.3	-6.0	281.5	-66.2
Tax	32.2	33.2	-3.0	86.0	-62.5
Adjusted PAT (before MI)	63.0	68.1	-7.5	195.5	-67.8
Minority interest (MI)	7.2	5.4	32.3	7.9	-9.0
Reported PAT	70.2	73.5	-4.6	203.4	-65.5
EPS (Rs.)	3.5	3.6	-4.6	10.1	-65.5
			bps		bps
GPM (%)	25.0	25.6	-54	43.1	-
EBIDTA margin (%)	11.7	11.7	-6	24.0	-
NPM (%)	4.4	4.9	-47	13.6	-920
Tax rate (%)	33.9	32.8	107	30.5	331

Source: Company, Sharekhan Research

Business-wise performance

Particulars	Revenue (Rs. crore)			PBIT Margin (%)		
	Q1FY25	Q1FY24	y-o-y (%)	Q1FY25	Q1FY24	y-o-y (bps)
Sugar	1,131.6	1,116.1	1.4	6.6	6.4	21
Distillery	424.1	466.0	-9.0	19.1	18.2	96
Others	2.3	5.0	-55.1			
Total	1,557.9	1,587.1	-1.8			
Less: Inter segment revenue	136.3	197.5	-30.9			
Revenue from operations	1,421.6	1,389.6	2.3			

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Stable sugar production expected for SY 2024-25

Expected sugar inventory at ~8.55 million tonnes as on September 30, 2024 in the country (opening balance) along with expected production of 32 million tonnes (pre-diversion) for the SS24-25 and domestic consumption of 29 million tonnes provides enough headroom to the Government to carry on the blending programme under Juice & B-heavy route unhindered and possibly leave room for exports too in SS24-25 as closing stock of 5.5 million tonnes has been considered sufficient. Further, with expectation of a normal monsoon, the industry expects positive updates in Ethanol policy for ESY 2024-25 and Export Policy for SS 2024-25.

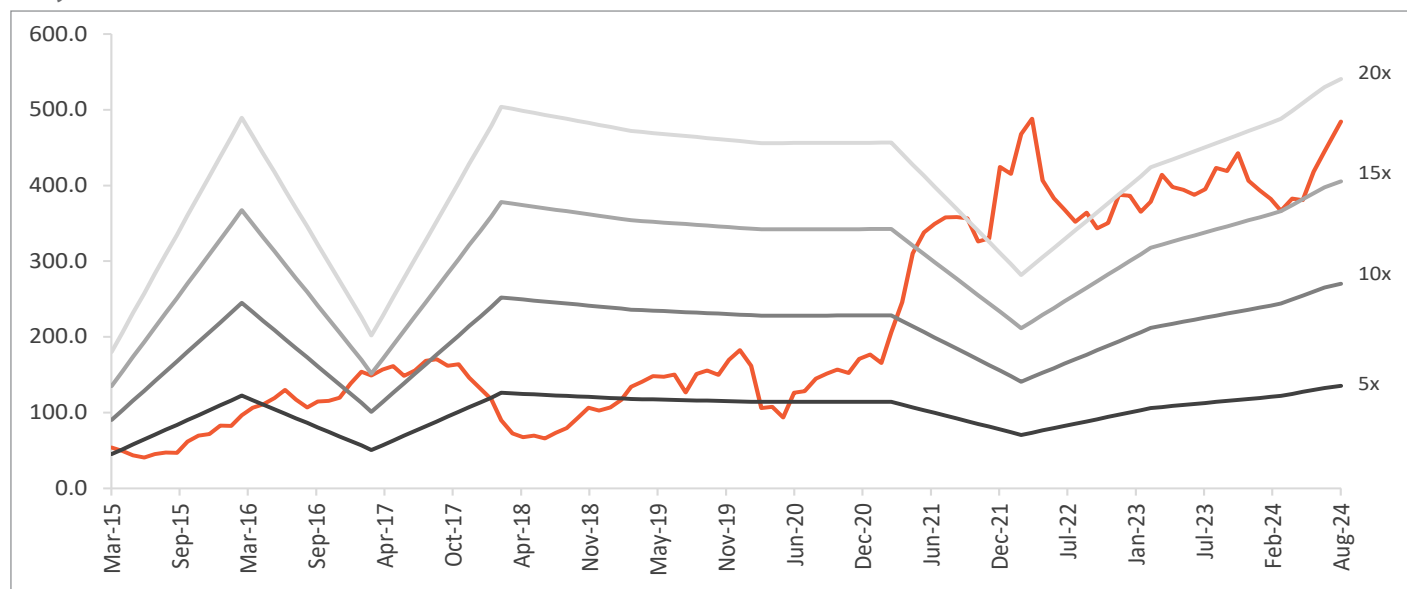
■ Company outlook - Long term growth prospects intact

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 fetch better yields in the coming sugar seasons. However lower ethanol production will impact the near-term performance of the company. We believe that BCML's medium to long-term growth prospects are intact as the government has maintained its thrust on higher ethanol blending through sugar in the coming years.

■ Valuation - Retain Buy with a revised PT of Rs. 615

We like BCML among the sugar companies because of its strong balance sheet, which will take care of near-term headwinds. Better yields from new sugar variants and steady growth in realisation will drive sugar business performance in the near term. Distillery business performance is expected to fully recover by FY2026. The stock is currently trading at 21x/17x its FY2025E/FY26E earnings, respectively. We maintain our stance of preferring large sugar companies with better balance sheets in an uncertain environment. We maintain our Buy rating on the stock with a revised PT of Rs. 615.

One year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Triveni Engineering	21.6	19.7	16.1	15.8	13.8	11.4	14.2	13.9	15.8
Balrampur Chini	24.1	20.9	16.6	15.4	13.6	11.7	12.6	13.2	14.3

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, 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 cyclicity in the sugar industry. Higher salience of ethanol in the revenue mix will improve the cash conversion cycle with debt reduction. With the increase in the ethanol business's contribution, the company's cash flows will consistently improve in the coming years. We expect BCML's revenue and PAT to post a CAGR of 11% and 20%, respectively, over FY2024-FY2026E.

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
Avantika Saraogi	Executive Director
Pramod Patwari	Chief Financial Officer
Manoj Agarwal	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India AMC	5.39
2	Kotak Mahindra AMC	2.52
3	Vanguard Group Inc	2.38
4	Quant moey managers	2.36
5	Dimensional Fund Advisors LP	1.85
6	BlackRock Inc	1.55
7	HDFC Asset Management Co Ltd	1.52
8	L & T Mutual Fund Trustee Ltd	1.41
9	Emirate of Abu Dhabi United Arab Emirates	1.23
10	Aditya Birla Sun Life Asset Management Co Ltd	1.16

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

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