



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. 11,057 cr
52-week high/low:	Rs. 693/343
NSE volume: (No of shares)	24.2 lakh
BSE code:	500038
NSE code:	BALRAMCHIN
Free float: (No of shares)	11.5 cr

Shareholding (%)

Promoters	42.9
FII	13.6
DII	26.4
Others	17.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-16.2	7.1	47.0	28.4
Relative to Sensex	-11.0	8.7	40.3	8.8

Sharekhan Research, Bloomberg

Balrampur Chini Mills Ltd

Weak Q2; better outlook ahead

Miscellaneous

Sharekhan code: BALRAMCHIN

Reco/View: Buy



CMP: Rs. 548

Price Target: Rs. 673



Upgrade



Maintain



Downgrade

Summary

- Balrampur Chini Mills' (BCML's) Q2FY2025 numbers were affected by government restrictions in distillery operations and lower crushing volumes. Revenues fell by 16% y-o-y and EBITDA fell by 70% y-o-y (EBIDTA margins decreased to 3.8%).
- Maintained its sugar production guidance for SY2024-25 at 32 million tonnes (net of diversion at 28.3 million tonnes). With sufficient inventory of 5.5 million tonnes at the end of SY, 2 million tonnes are available for exports.
- Construction of PLA plant will start soon after receipt of regulatory approvals. Likely to be operational by October 2026. UP government has supported with capex subsidy and interest subvention.
- Stock trades at 24x/19x/17x its FY25E/FY26E/FY27E earnings, respectively. We maintain a Buy with a revised PT of Rs. 673.

BCML's Q2FY2025 was weak impacted by lower distillery volumes due to government's regulatory restrictions and lower crushing volumes. This decrease is owing to lower sugarcane availability during the season, which has also impacted the distillery segment. Further, fixed overheads could not be absorbed fully in this quarter owing to curtailed crushing/season days. Consolidated revenues decreased by 15.7% y-o-y to Rs. 1,298 crore due to 52.7% y-o-y decline in the distillery revenues. EBITDA margins stood substantially lower at 3.8% versus 10.7% in Q2FY2024. EBITDA decreased by 70.2% y-o-y to Rs. 49 crore. Adjusted PAT decreased by 24% y-o-y to Rs. 59 crore. In H1FY2025, revenues decreased by 7% y-o-y to Rs. 2,720 crore, EBITDA margins stood at 7.9% versus 11.2% in H1FY2024 and adjusted PAT fell by 16.3% y-o-y to Rs. 122 crore.

Key positives

- Sugar realisations stood at Rs. 38.5 per kg; grew by 2.2% y-o-y.

Key negatives

- Distillery sales volumes fell by 47% y-o-y to 4.6 crore BL.

Management Commentary

- Sugar inventory stood at 8.5 million tonnes at end of sugar season (SS) 2023-24. BCML expects sugar production to be 32 million tonnes (28.3 million tonnes post diversion for ethanol production) for SS 2024-25 and domestic consumption is expected to be at 29 million tonnes.
- Additional inventory provides good scope for government to avail sugar exports of 2 million tonnes in the current season.
- Industry is demanding an increase in sugar MSP, allowing sugar exports and revision in ethanol prices to improve distillery performance.
- Current sugar prices of Rs. 38.5 per kg is not sufficient; expects sugar prices to improve with likely increase in MSP and allowing of sugar exports.
- Company is making good progress on cane-based Polylactic Acid (PLA) project and has invested ~Rs. 333 crore till September 24 through internal accruals. Land for the project has been acquired, contracts with foreign technology partners and vendors for long lead items have been finalised. PLA facility is expected to be operational from October 2026.
- UP state government has announced a policy for bioplastics, which is 50% capex subsidy over seven years, a 5% interest subvention and an SGST net reimbursement for a period of 10 years, exemption on electricity duty for 10 years, stamp duty exemption on land purchased and Total capping on the subsidy/incentive should not exceed 200% of the eligible investment.
- Company expects to do ethanol production of 25 crore litre between November 2024 and October 2025. Around 9 crore litres of ethanol will be produced from sugar juice, 10-11 crore litres from B Heavy molasses, 1-1.5 crore litres from C-Heavy molasses and rest from Maize.

Revision in estimates - We have reduced our earnings estimates for FY2025 and FY2026 by 6% and 4% respectively to factor in lower sales volume in the distillery business and lower EBITDA margins. We have introduced FY2027 earnings estimates through this note.

Our Call

View - Retain Buy with a revised PT of Rs. 673: 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 while PLA business will help in adding value to its sugar business. Stock is currently trading at 24x/19x/17x its FY2025E/FY26E/FY27E earnings, respectively. We maintain a stance of preferring large sugar companies with better balance sheets in an uncertain environment. We maintain Buy rating on the stock with a revised PT of Rs. 673.

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	FY27E
Revenue	4,666	5,594	5,819	6,725	7,240
OPM (%)	11.0	14.1	14.7	15.0	14.8
Adjusted PAT	284	428	461	597	637
% YoY growth	-42.9	55.5	8.5	32.5	7.5
Adjusted EPS (Rs.)	14.1	21.2	22.8	29.6	31.6
P/E (x)	38.9	25.9	24.0	18.5	17.3
P/B (x)	3.8	3.3	2.9	2.5	2.2
EV/EBIDTA (x)	24.0	16.4	15.3	12.8	11.7
RoNW (%)	9.6	12.8	12.8	14.7	13.8
RoCE (%)	9.9	12.6	12.5	13.9	14.0

Source: Company; Sharekhan estimates

Weak Q2 in seasonally lean quarter

BCML's revenues declined by 15.7% y-o-y to Rs. 1,298 crore, largely in-line with our expectation of Rs. 1,302 crore and average street expectation of Rs. 1,282 crore. Lower crushing volumes limited the ability to absorb fixed cost in Q2, while the distillery business was affected by government's order of putting ban to produce ethanol from sugar juice/ B-heavy molasses, which affected BCML's Q2 performance. Distillery and sugar business revenue declined by 52.7% and 5.5% y-o-y, respectively. EBIDTA margins contracted by 693 bps y-o-y to 3.8% (versus our and street average expectation of 9%). Sugar business and Distillery business margins saw significant drop in Q2. EBIDTA fell by 70.2% y-o-y to Rs. 49 crore. However, high other income at Rs. 65 crore led to better-than-expected PAT at Rs. 59 crore, against our expectation of Rs. 32 crore and average street expectation of Rs. 40 crore.

Results (Consolidated)

Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	q-o-q (%)
Total revenue	1,297.9	1,539.5	-15.7	1,421.6	-8.7
Raw material cost	1,075.7	1,170.1	-8.1	1,065.6	0.9
Employee cost	93.5	92.9	0.7	91.9	1.8
Other expenses	79.6	111.6	-28.7	97.9	-18.7
Total operating expenses	1,248.9	1,374.6	-9.1	1,255.5	-0.5
EBITDA	49.1	164.9	-70.2	166.1	-70.5
Other income	64.9	7.1	-	7.7	-
Interest expense	20.0	17.2	16.5	36.0	-44.4
Depreciation	43.2	41.2	4.7	42.6	1.4
Profit before tax	50.8	113.5	-55.3	95.2	-46.7
Tax	-8.0	36.1	-	32.2	-
Adjusted PAT (before MI)	58.8	77.4	-24.0	63.0	-6.6
EPS (Rs.)	3.3	8.2	-59.6	3.5	-4.2
			bps		bps
GPM (%)	17.1	24.0	-687	25.0	-792
EBIDTA margin (%)	3.8	10.7	-693	11.7	-790
NPM (%)	4.5	5.0	-50	4.4	10
Tax rate (%)	-15.8	31.8	-	33.9	-

Source: Company, Sharekhan Research

Business-wise performance

Particulars	Q2FY25	Q2FY24	y-o-y (%)	H1FY25	H1FY24	y-o-y (%)
Sugar	1,048.6	1,109.4	-5.5	2,180.2	2,225.5	-2.0
Distillery	264.5	559.7	-52.7	688.5	1,025.7	-32.9
Others	4.3	5.3	-18.7	6.6	10.3	-36.4
Total	1,317.4	1,674.4	-21.3	2,875.3	3,261.4	-11.8
Less: Inter segment revenue	19.4	134.9	-85.6	155.8	332.3	-53.1
Revenue from operations	1,297.9	1,539.5	-15.7	2,719.5	2,929.1	-7.2

Source: Company, Sharekhan Research

Segment PBIT margins

Particulars	Q2FY25	Q2FY24	y-o-y (bps)	H1FY25	H1FY24	y-o-y (bps)
Sugar	0.1	3.5	-338	3.5	5.0	-147
Distillery	12.5	19.5	-707	16.6	18.9	-234

Source: Company, Sharekhan Research

Outlook and Valuation

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

Expected sugar inventory at ~8.5 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 SS 2024-25 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.

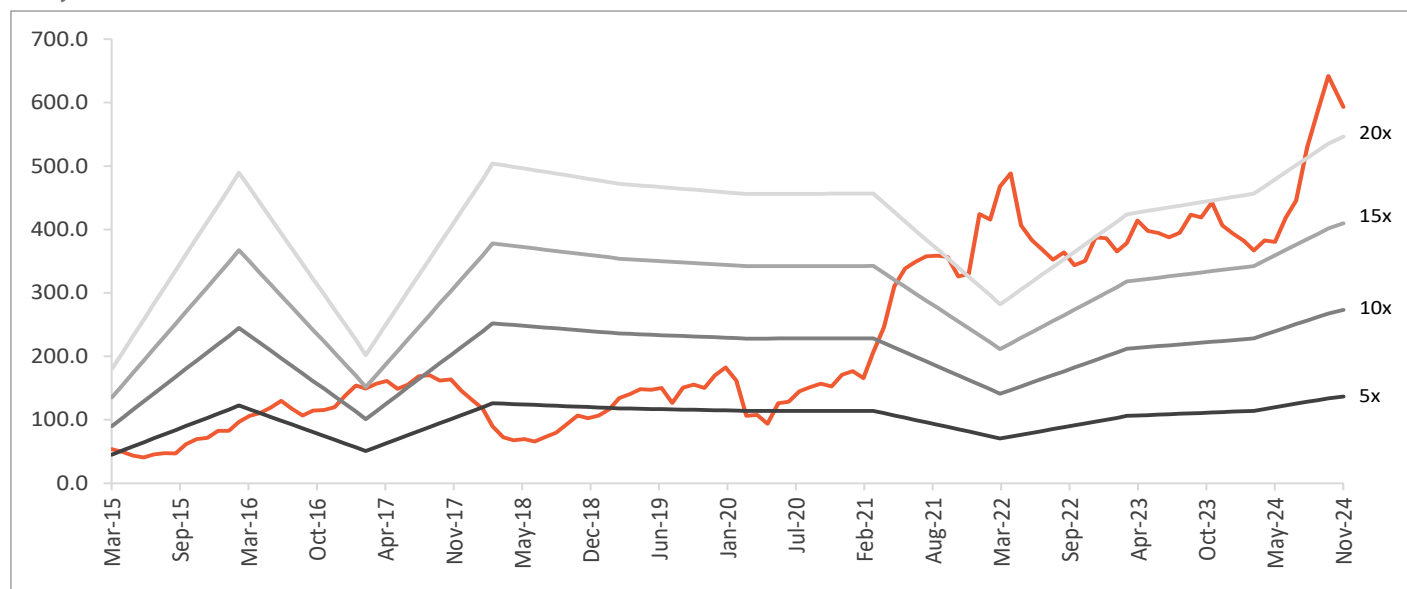
■ Company outlook - Long term growth prospects intact

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. 673

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 while PLA business will help in adding value to its sugar business. Stock is currently trading at 24x/19x/17x its FY2025E/FY26E/FY27E earnings, respectively. We maintain a stance of preferring large sugar companies with better balance sheets in an uncertain environment. We maintain Buy rating on the stock with a revised PT of Rs. 673.

One-year forward P/E band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Triveni Engineering	21.0	20.9	17.0	15.4	14.3	11.8	14.2	12.9	14.8
Balrampur Chini	25.9	24.0	18.5	16.4	15.3	12.8	12.6	12.5	13.9

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 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 9% and 14%, respectively, over FY2024-FY2027E.

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 (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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