

## Massive capex; distillery to contribute 1/3 to revenue

**About the stock:** Balrampur Chini (BCML) is the second largest sugar company with sugar crushing capacity of 76000 TCD, distillery capacity of 520 KLD & co-generation capacity of 91 MW. It is undertaking a distillery capex of 530 KLD & modernisation, de-bottlenecking of its sugarcane crushing capacity at multiple plants.

- The company would be able to increase distillery volumes to 35 crore litre in FY24 from 16 crore litre in FY21. Moreover, the modernisation plan would result in higher sugarcane crushing, better recoveries

### Q1FY22 Results: BCML reported muted results in Q1FY22.

- Sales were down 20.3 % YoY, due to lack of exports during the quarter
- EBITDA was at ₹ 134 crore, down 38.5% YoY, with margins at 11.8%
- Consequent PAT was at ₹ 76.9 crore (down 44.9 % YoY)

**What should investors do?** BCML's share price has gone up 3x in the last five years (from ₹ 114 in August 2016 to ₹ 350 in August 2021).

- We expect 2.2x increase in distillery volumes to boost earnings with CAGR of 19.3% during FY21-24E
- We continue to maintain our BUY rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 515, valuing the business at 15x FY23 PE

### Key triggers for future price performance:

- With distillery capex, BCML would be able to increase its ethanol volumes 2.2x to 35 crore litre by FY24. Distillery sales may witness 34.8% CAGR to ₹ 2053 crore in FY21-24E, which would be 32% of total revenues
- It is undertaking modernisation & de-bottlenecking at some plants. This would lead to higher sugarcane crushing, better recoveries and, in turn, lead to stronger revenue growth. We expect 9.5% revenue CAGR in FY21-24E
- The company is introducing newer sugarcane variety in its catchment areas, which would reduce the dependence on Co-0238

**Alternate Stock Idea:** We also like Dwarikesh Sugar in our sugar coverage.

- The company is one of the most efficient companies with highest sugar recovery & abundant sugarcane availability. It is increasing its distillery capacity to 3x in the next three years
- We value the stock at ₹ 110/share with BUY recommendation



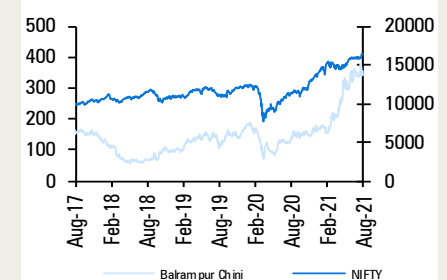
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	7,175.7
Total Debt (FY21)	1,134.6
Cash and Investments (FY21)	2.8
EV	8,307.5
52 week H/L (₹)	370 / 122
Equity capital	21.0
Face value (₹)	1.0

### Shareholding pattern

(in %)	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	41.2	41.2	41.2	41.2
FII	20.3	20.1	21.6	20.8
DII	11.4	14.0	15.1	16.2
Others	27.1	24.7	22.1	21.8

### Price Chart



### Recent event & key risks

- The company would increase distillery capacity to 1050 KLD
- Key Risk:** (i) Any delay in distillery capacity expansion (ii) any irrational increase in sugarcane prices

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR (FY16 to FY21)	FY22E	FY23E	FY24E	CAGR (FY21-24E)
Total Operating Income	4741.3	4811.7	11.8	4695.8	5375.4	6314.2	9.5%
EBITDA	682.0	713.8	11.7	761.1	966.5	1180.2	18.2%
EBITDA Margin %	14.4	14.8		16.2	18.0	18.7	
Net Profit	519.4	479.8	36.8	544.1	676.6	815.5	19.3%
EPS (₹)	23.6	22.8		26.5	34.7	44.1	24.5%
P/E	14.5	15.0		12.9	9.8	7.8	
RoNW %	21.5	18.3		18.5	20.4	21.5	
RoCE (%)	16.1	16.4		18.55	20.44	22.97	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q1FY22 Results: Subdued quarter; distillery expansion to drive earnings

- Consolidated revenue witnessed de-growth of 20.3% to ₹ 1140 crore on the back of 29.7% decline in sugar sales & 55.2% dip in co-generation revenues. Distillery segment witnessed 19.7% sales growth during the quarter. The lower sales were mainly on account of high sugar volumes in the base quarter due to exports. The company has not exported sugar in 2020-21 sugar season due to a drop in sugar production for the company
- With the significant de-growth in sugar production in 2020-21 sugar season for the company due to lower sugarcane availability, sugar as well as power volumes were impacted
- The company sold 2.4 lakh tonnes (lt) (against 3.5 lt in the corresponding quarter) of sugar at an average realisation of ₹ 33.2/kg. BCML has not exported sugar given the significant reduction in sugar production in 2020-21 sugar season. The production during the quarter was a mere 0.48 lt (2.2 lt in corresponding quarter) due to non-availability of sugarcane. The company is holding 4.57 lt of sugar valued at ₹ 31.4/kg
- Total distillery volumes increased 10.8% to 4.8 crore litre with average realisation of ₹ 53.4/litre. B-heavy ethanol contributed 85% of total volumes. OMCs increased ethanol offtake in the current season. Industry wide, OMCs have contracted 318 crore litre of ethanol procurement for November December 2021
- In addition to the earlier announced capex of ₹ 425 crore, further capex of ₹ 568 crore for distillery expansion of 210 KLD & modernisation, de-bottlenecking & refinery expansion at five of its plant was announced. The company would add total of 530 KLD of new distillery capacity by November 2022. This would result in annual distillery volumes of 35 crore. Moreover, modernisation & de-bottlenecking plans would increase the crushing capacity, reduce the number of days of crushing and, in turn, result in better recoveries, additional availability of sugarcane
- Post the current capex, the company would be able to divert 10% of its sugarcane towards sugarcane juice ethanol and 75% towards B-heavy ethanol. Out of the total 35 crore litre of ethanol, ~5 crore would be produced through grain based ethanol while ~30 crore would be produced through molasses/juice based ethanol
- BCML is targeting 95 lt of sugarcane crushing in FY22 with expected recovery in sugarcane availability in its catchment area. Moreover, it is targeting 114 lt of annual sugarcane crushing in the next two-years. This would result in higher sugarcane availability for ethanol production given new capacities would be commissioned in November 2022

### Exhibit 1: Peer Comparison

Sector / Company	CMP (₹)	TP (₹)	M Cap (₹ Cr)	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)				
				FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	
Balrampur Chini (BALCHI)	342	515	Buy	7176	-3.2	16.2	30.7	27.1	14.8	16.2	18.0	18.7	15.0	12.9	9.8	7.8	2.7	2.4	2.2	1.9	16.4	18.6	20.4	23.0
Dalmia Bharat Sugar (DALISUG)	398	650	Buy	3225	39.9	17.2	19.3	18.7	17.5	20.6	20.9	20.6	14.3	12.2	10.3	8.6	1.8	1.9	1.6	1.4	13.3	14.7	15.5	16.8
Triveni Engineering (TRIENG)	166	270	Buy	4002	-9.9	36.7	24.5	19.5	11.9	13.1	14.9	16.5	16.0	11.7	9.4	7.9	3.0	2.6	2.2	1.9	19.4	19.8	22.8	25.3
Dwarikesh sugar (DWASUG)	63	110	Buy	1190	24.5	44.9	20.2	53.9	10.9	12.3	15.4	20.2	15.8	10.9	9.1	5.9	2.5	2.1	1.8	1.4	14.4	18.7	19.6	27.2

Source: Company, ICICI Direct Research

Though the company has suffered in the current sugar season due to lower availability of sugarcane in its catchment area given the issue of red-rot, we believe this would have a limited impact on revenue & earnings in the current season. The company would be able to recover the sugar volumes in the next sugar season. In the next three years, it would be able to increase its distillery capacity to 2.2x from current 16 crore litre to 35 crore litre, which would result in a significant improvement in earnings. The higher sugarcane diversion towards ethanol & increase in sugarcane availability in its catchment area would result in increase in sugar & distillery volumes going forward. Balrampur Chini is one of the most efficient sugar company in India with second largest sugar crushing capacity. We maintain our BUY recommendation with a target price of ₹ 515/share (valuing it at 15x FY23 PE)

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	1,140.4	1,430.8	-20.3	1,019.4	11.9	Net sales were down due to high export volumes in base quarter
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	852.0	1,075.4	-20.8	461.5	84.6	Reduction in RM cost due to lower sugarcane crushing during the quarter. The sugarcane in the company's area was adversely impacted by red-rot in 2020-21 season
Employee Expense	65.6	64.2	2.2	79.6	-17.6	
Other operating Expenses	88.8	73.3	21.2	146.0	-39.2	
EBITDA	134.0	217.9	-38.5	332.2	-59.7	Operating profit was lower due to lower crushing & higher overhead spends
EBITDA Margin (%)	11.8	15.2	-348 bps	32.6	-2084 bps	
Depreciation	29.3	27.8	5.4	27.8	5.5	
Interest	13.1	15.6	-16.0	9.6	36.3	
Other Income	5.2	3.3	57.1	7.9	-33.6	
PBT	96.8	177.8	-45.5	302.7	-68.0	
Tax Outgo	25.0	44.2	-43.4	70.7	-64.7	
PAT	76.9	139.5	-44.9	235.5	-67.3	
<b>Key Metrics</b>						
Sugar sales volume (in lakh tonne)	2.4	3.6	-32.4	1.9	26.9	Sugar volumes were lower given the company did not export at all due to lower sugar inventory
Domestic Sugar realisation (₹ per kg)	33.2	31.9	4.3	32.1	3.5	Sugar prices improved slightly
Distillery volumes (in crore litre)	4.8	4.3	10.8	3.8	26.6	Distillery volumes were higher by 10.8% with increasing OMs offtake
Distillery realisation (₹ per litre)	53.7	49.9	7.6	52.3	2.7	Higher distillery realisation with increasing proportion of B-heavy ethanol

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	Old	New	% change	
Net sales	4667.2	4,695.8	0.6	5,697.7	5,375.4	-5.7	6,020.9	6,314.2	4.9	We have changed FY23 sugar volumes numbers given the company may not export sugar in the next season as well. We have incorporated announced distillery capacity addition
EBITDA	799.1	761.1	-4.8	1,015.0	966.5	-4.8	1,122.7	1,180.2	5.1	
EBITDA Margin (%)	17.1	16.2	-91 bps	17.8	18.0	17 bps	18.6	18.7	4 bps	
PAT	554.8	544.1	-1.9	715.9	676.6	-5.5	783.2	815.5	4.1	
EPS (₹)	27.1	26.5	-2.1	36.7	34.7	-5.5	42.3	44.1	4.2	

Source: ICICI Direct Research

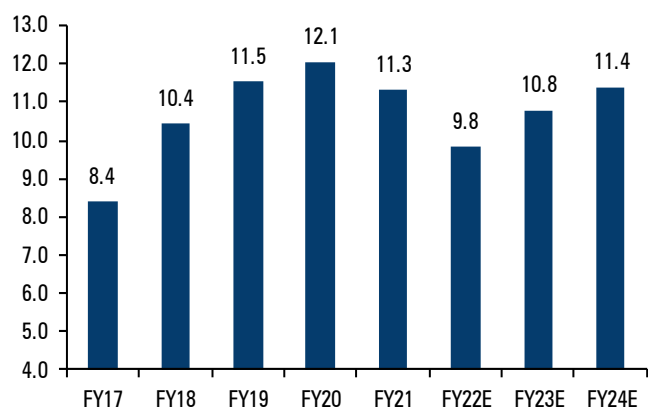
Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Sugar Sold (in tonne)	1,205,300	1,132,600	984,000	1,080,000	1,140,000	960,000	1,164,000	1,152,000	We have changed our sugar volumes estimates with the expectation that the company would not be exporting any quantity in FY23
Sugar Price (₹ per tonne)	27,689	32,350	34,000	35,000	35,500	34,000	34,800	35,000	
Distillery volume	119,320	165,204	180,180	235,200	351,750	180,180	235,200	295,680	We have incorporated distillery capacity addition
Distillery price (₹ per KL)	45,701	48,350	56,086	56,603	57,057	55,114	55,408	55,408	
Power Units sold	52.6	42.6	51.1	54.5	52.3	56.8	56.8	56.8	
Price per unit (₹ per units)	3.1	3.2	3.3	3.4	3.4	3.3	3.4	3.4	

Source: ICICI Direct Research

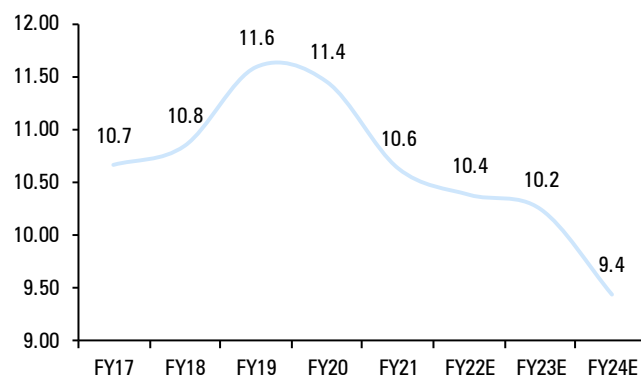
## Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



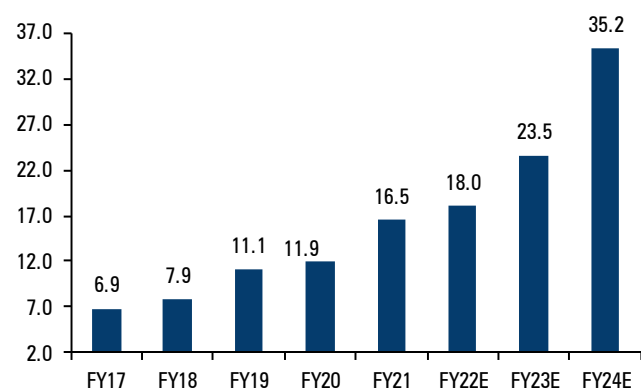
Source: ICICI Direct Research, Company

Exhibit 6: Reduction in sugar recovery rate after higher proportion of sugarcane diversion towards B-heavy ethanol



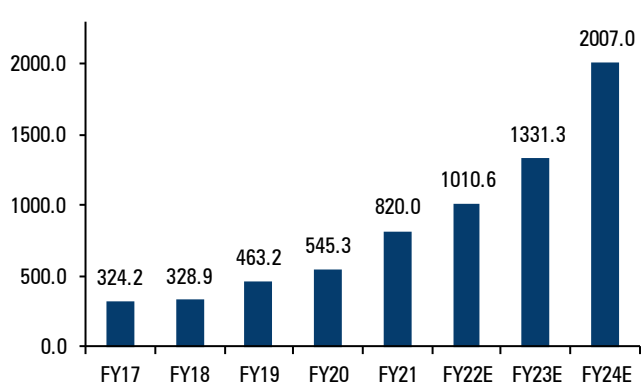
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



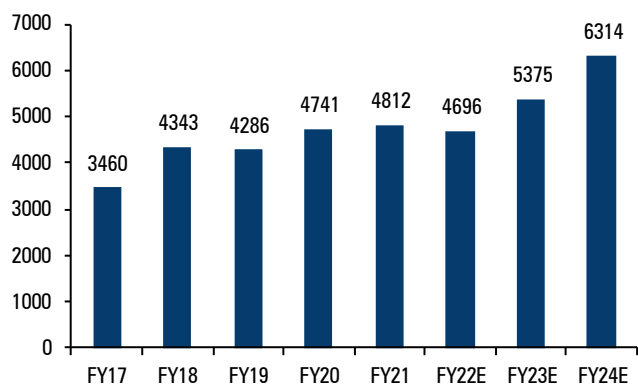
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



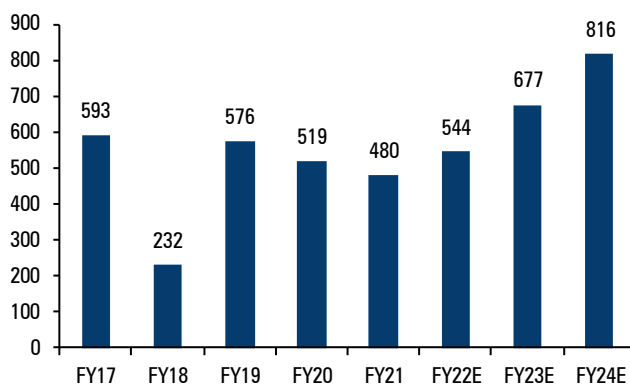
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Adjusted PAT trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	4811.7	1.5	22.8	-3.2	15.0	11.6	18.3	16.4
FY22E	4695.8	-2.4	26.5	16.2	12.9	10.3	18.5	18.6
FY23E	5375.4	14.5	34.7	30.7	10.1	8.3	20.4	20.4
FY24E	6314.2	17.5	44.1	27.1	8.2	6.7	21.5	23.0

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Total Operating Income</b>	<b>4,811.7</b>	<b>4,695.8</b>	<b>5,375.4</b>	<b>6,314.2</b>
Growth (%)	1.5	-2.4	14.5	17.5
Raw Material Expenses	3,456.0	3,367.5	3,800.4	4,492.3
Employee Expenses	281.7	290.1	307.5	326.0
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	360.1	277.1	301.0	315.7
Total Operating Expenditure	4,097.8	3,934.7	4,408.9	5,134.0
<b>EBITDA</b>	<b>713.8</b>	<b>761.1</b>	<b>966.5</b>	<b>1,180.2</b>
Growth (%)	4.7	6.6	27.0	22.1
Depreciation	111.9	101.1	126.1	149.6
Interest	39.3	23.6	39.0	34.8
Other Income	26.9	28.3	31.1	29.5
PBT	562.7	636.4	801.4	995.8
Total Tax	129.4	152.9	191.5	246.1
<b>PAT</b>	<b>479.8</b>	<b>544.1</b>	<b>676.6</b>	<b>815.5</b>
<b>Adjusted PAT</b>	<b>479.8</b>	<b>544.1</b>	<b>676.6</b>	<b>815.5</b>
Growth (%)	-7.6	13.4	24.3	20.5
Adjusted EPS (₹)	22.8	26.5	34.7	44.1

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/Loss after Tax	589.6	544.1	676.6	815.5
Add: Depreciation	111.9	101.1	126.1	149.6
Add: Interest	39.3	0.0	0.0	0.0
(Inc)/dec in Current Assets	106.2	61.2	94.2	-418.1
Inc/(dec) in Current Liabilities	-140.1	158.0	35.0	50.9
<b>CF from operating activities</b>	<b>649.0</b>	<b>864.5</b>	<b>931.8</b>	<b>597.9</b>
(Inc)/dec in Investments	15.7	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-97.8	-150.0	-800.0	-100.0
Others	0.9	2.4	0.0	0.0
<b>CF from investing activities</b>	<b>-81.1</b>	<b>-172.6</b>	<b>-825.0</b>	<b>-125.0</b>
Issue/(Buy back) of Equity	-223.2	-200.0	-200.0	-225.0
Inc/(dec) in loan funds	-251.1	-450.0	186.7	-120.0
Dividend paid & dividend tax	-52.5	-61.5	-110.0	-117.0
Inc/(dec) in Sec. premium	0.0	43.9	0.0	0.0
Others	-42.1	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-568.9</b>	<b>-667.6</b>	<b>-123.3</b>	<b>-462.0</b>
Net Cash flow	-1.0	24.2	-16.5	10.9
Opening Cash	1.5	0.4	24.7	8.2
Cash change due to asset HFS	0.0	0.0	0.0	0.0
Cash with bank	0.0	0.0	0.0	0.0
<b>Closing Cash</b>	<b>0.4</b>	<b>24.7</b>	<b>8.2</b>	<b>19.1</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	21.0	20.5	20.0	19.5
Reserve and Surplus	2,598.1	2,925.1	3,292.2	3,766.2
Total Shareholders funds	2,619.1	2,945.6	3,312.2	3,785.7
Total Debt	1,134.6	684.6	871.3	751.3
Long Term Provisions	8.2	8.2	8.2	8.2
Other Non-current Liabilities	71.2	72.2	73.2	74.2
<b>Total Liabilities</b>	<b>3,833.2</b>	<b>3,710.7</b>	<b>4,264.9</b>	<b>4,619.5</b>
<b>Assets</b>				
Gross Block	2,202.0	2,352.0	3,152.0	3,252.0
Less: Acc Depreciation	604.2	705.4	831.4	981.0
Net Block	1,597.8	1,646.6	2,320.5	2,270.9
Capital WIP	14.5	14.5	14.5	14.5
Intangible assets	0.8	0.8	0.8	0.8
Non Current Investments	249.2	274.2	299.2	324.2
Other non-current assets	17.3	17.3	17.3	17.3
<b>Current Assets</b>				
Inventory	2,378.5	2,321.8	2,209.9	2,595.9
Debtors	245.5	260.9	298.6	350.8
Cash	2.8	24.7	8.2	19.1
Loans & Advances	0.0	0.0	0.0	0.0
Other Current Assets	127.7	107.7	87.7	67.7
<b>Current Liabilities</b>				
Creditors	596.4	632.0	640.2	651.9
Provisions	5.4	5.4	5.4	5.4
Other CL	199.0	320.4	346.2	384.4
Net Current Assets	1,953.6	1,757.2	1,612.6	1,991.7
<b>Total Assets</b>	<b>3,833.2</b>	<b>3,710.7</b>	<b>4,264.9</b>	<b>4,619.5</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	22.8	26.5	34.7	44.1
Cash EPS	28.2	31.5	41.2	52.2
BV	124.7	143.7	165.6	194.1
DPS	2.5	3.0	5.5	6.0
Cash Per Share	28.8	34.4	41.6	50.3
<b>Operating Ratios (%)</b>				
EBITDA Margin	14.8	16.2	18.0	18.7
PBT / Net Sales	12.3	14.2	15.5	16.2
PAT Margin	10.0	11.6	12.6	12.9
Inventory days	180.4	180.5	150.1	150.1
Debtor days	18.6	20.3	20.3	20.3
Creditor days	45.2	49.1	43.5	37.7
<b>Return Ratios (%)</b>				
RoE	18.3	18.5	20.4	21.5
RoCE	16.4	18.6	20.4	23.0
<b>Valuation Ratios (x)</b>				
P/E	15.0	12.9	9.8	7.8
EV / EBITDA	11.6	10.3	8.3	6.7
EV / Net Sales	1.7	1.7	1.5	1.2
Market Cap / Sales	1.5	1.5	1.3	1.1
Price to Book Value	2.7	2.4	2.2	1.9
<b>Solvency Ratios</b>				
Debt/EBITDA	1.6	0.9	0.9	0.6
Debt / Equity	0.4	0.2	0.3	0.2
Current Ratio	4.3	3.7	3.5	4.0
Quick Ratio	0.6	0.5	0.5	0.6

Source: Company, ICICI Direct Research

**Exhibit 16: ICICI Direct coverage universe (Sugar)**

Sector / Company	CMP	TP	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				P/B				RoCE (%)				
	(₹)	(₹)		Rating	(₹ Cr)	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E
Balrampur Chini (BALCHI)	342	515	Buy	7,176	22.8	26.5	34.7	44.1	15.0	12.9	9.8	7.8	11.6	10.3	8.3	6.7	2.7	2.4	2.2	1.9	16.4	18.6	20.4	23.0
Dalmia Bharat Sugar (DALSUG)	398	650	Buy	3,225	33.4	39.2	46.7	55.5	11.9	10.2	8.5	7.2	9.9	8.6	7.5	6.4	1.8	1.9	1.6	1.4	13.3	14.7	15.5	16.8
Triveni Engineering (TRIENG)	166	270	Buy	4,002	12.2	16.7	20.7	24.8	13.6	9.9	8.0	6.7	9.9	9.0	7.3	6.1	3.0	2.6	2.2	1.9	19.4	19.8	22.8	25.3
Dwarikesh sugar (DWASUG)	63	110	Buy	1,190	4.9	7.0	8.5	13.0	13.0	9.0	7.5	4.8	9.9	7.6	6.2	4.2	2.5	2.1	1.8	1.4	14.4	18.7	19.6	27.2
Dhampur Sugar (DHASUG)	275	500	Buy	1,824	34.4	44.9	53.1	57.6	8.0	6.1	5.2	4.8	7.4	6.2	5.1	4.7	1.6	1.4	1.2	1.0	14.8	16.8	19.1	18.9
Avadh Sugar (AVASUG)	425	685	Buy	849	38.8	66.5	94.9	106.7	10.9	6.4	4.5	4.0	8.3	6.1	4.0	3.0	1.4	1.2	1.0	0.8	11.5	14.7	20.6	23.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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