

Balrampur Chini (BALCHI)

CMP: ₹ 350

Target: ₹ 515 (47%)

Target Period: 12 months

BUY

August 5, 2022

Sugarcane crushing to bounce back in 2022-23 season

About the stock: Balrampur Chini (BCML) is the second largest sugar company with sugar crushing capacity of 77500 TCD, distillery capacity of 560 KLD and co-generation capacity of 175.7 MW. It is expected to complete its distillery capex of 490 KLD, modernisation, de-bottlenecking of its sugarcane crushing capacity by December 2022, taking its total distillery capacity to 1050 KLD (35 crore litre).

- The company is working on replacing the existing Co-0238 sugarcane variety in its catchment area with newer varieties, which would improve sugarcane yields & recovery

Q1FY23 Results: BCML reported dismal results with 66.9% dip in operating profit

- Sales de-grew 5.3%. Sugar volumes were down 11.8%
- EBITDA was down 66.9% at ₹ 44.4 crore, with margins at 4.1%
- Consequent PAT was at mere ₹ 12.4 crore (down 83.4% YoY)

What should investors do? BCML's share price has gone up 114% in the last five years (from ₹ 165 in August 2017 to ₹ 356 in August 2022).

- We expect 40.1% CAGR in distillery volume, which would boost the company's earnings by 28% CAGR during FY22-24E
- We continue to maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 515, valuing the business at 12x FY24 PE

Key triggers for future price performance:

- With distillery capex, BCML would be able to increase its ethanol capacity 2x to 35 crore litre. Distillery sales are expected to witness 47.1% CAGR to ₹ 2109.5 crore in FY22-24E, which would be 35% of total revenues
- It is undertaking modernisation & de-bottlenecking at some plants. This would lead to higher sugarcane crushing, better recoveries by FY24. We expect 11.9% revenue CAGR in FY22-24E
- BCML would be replacing Co-0238 with newer sugarcane variety in its catchment areas, which would enhance sugarcane availability & sugar production through higher yields & sugar recovery

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 2x in the next two years
- We value the stock at ₹ 150/share with **BUY** recommendation



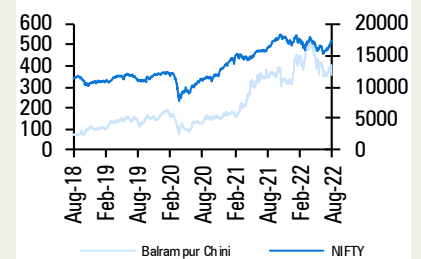
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	7,354.2
Total Debt (FY22)	1,210.7
Cash and Investments (FY22)	3.3
EV	8,561.6
52 week H/L (₹)	525 / 298
Equity capital	20.4
Face value (₹)	1.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	41.4	42.4	42.4	42.4
FII	20.9	19.1	17.0	16.2
DII	15.2	16.8	19.3	19.3
Others	22.5	21.7	21.3	22.1

Price Chart



Recent event & key risks

- New variety would reach to 20-25% of sugarcane crushing in 2022-23 sugar season
- Key Risk:** (i) Significant dip in global sugar prices could hinder exports (ii) Extreme weather anomalies could impede sugarcane availability

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Key Financial Summary

Key Financials	FY20	FY21	5 Year CAGR (FY17 to FY22)	FY22	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	4741.3	4811.7	6.8	4846.0	5077.1	6071.2	11.9%
EBITDA	682.0	713.8	-3.9	699.7	839.2	1129.9	27.1%
EBITDA Margin %	14.4	14.8		14.4	16.5	18.6	
Net Profit	519.4	479.8	-4.1	464.6	530.8	761.0	28.0%
EPS (₹)	23.6	22.8		22.8	27.4	41.3	34.8%
P/E	14.8	15.3		15.4	12.8	8.5	
RoNW %	21.5	18.3		16.9	17.5	22.2	
RoCE (%)	16.1	16.4		15.3	16.0	23.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY23 Results: New sugarcane varieties, disease management & expected favourable weather to revive sugarcane crushing in 2022-23 season

- Consolidated revenue witnessed a dip of 5.3% to ₹ 1080.1 crore, mainly on account of 3.1% decline in sugar sales and merely 11.6% growth in distillery revenues
- The dip in sugar sales was due to 11.8% decline in sugar sales volumes to 2.1 lakh tonnes (lt). Sugar realisation was up 7.1% to ₹ 35.6/kg. Distillery sales growth was aided by 7.7% growth in distillery volumes (B-heavy ethanol, C-heavy ethanol, ENA) to 5.2 crore litre whereas distillery realisation was flat at ₹ 54.2 crore
- Operating profit witnessed de-growth of 66.9% to ₹ 44.4 crore, mainly on account of substantial increase in cost of production due to increase in sugarcane prices in 2021-22 sugar season, lower sugarcane crushing & decline in sugar recovery due to adverse weather conditions
- However, the impact for BCML was more prominent due to lower sugarcane availability in its catchment area. The company is holding sugar inventory of 3.6 lt valued at ₹ 34.12/kg
- Transfer pricing for B-heavy molasses has been increased from ₹ 7/kg in June 2021 to ₹ 10.3/ kg in June 2022. The company has already supplied 12.17 crore litre of B-heavy ethanol out of 14.82 crore litre contracted quantities for 2021-22. Similarly, it has supplied 0.68 crore litre of C-heavy ethanol out of contracted quantities of 0.9 crore litre
- Net profit declined 83.8% to ₹ 12.4 crore mainly on account of a dip in operating profit, higher tax provisioning and lower profit from associates during the quarter
- The company has done considerable work on sugarcane development & disease management in its catchment area. Moreover, BCML has been able to replace 20% Co-0238 variety with newer sugarcane varieties. This is expected to improve sugarcane yield in its catchment area in 2022-23 season
- BCML has experienced 8% increase in sugarcane area near its factories. Further, rainfall in eastern UP is favourable for yield and sugar recovery. With the increase in area under sugarcane and expected improvement in sugarcane yield, the company is estimating 105 lt of sugarcane crushing for 2022-23 season. Given weather conditions are favourable, sugar recoveries are also likely to improve by at least 30 bps for the season. The company expect to start crushing early in 2022-23 season
- With the completion of capex for sugar refinery, the company would be able to produce 45% of its total production as refined sugar. High grade refined sugar for exports would be closer 10% of its total volumes. 'London 5' refined white sugar prices are prevailing at ₹ 38/ kg (ex-factory)
- The country is expected to produce 35.5 million tonnes (MT) sugar in 2022-23 season after the sacrifice of 4.5 MT. Sugar industry would need to export 7-8 MT of sugar in next season. This quantity of exports would be possible given Brazilian sugar production is expected to increase by only 1 MT to 33 MT
- Ethanol blending has reached 10.17% in 2021-22 with OMCs contracting for 446 crore litre of ethanol, which includes 366 crore litre from sugar industry. OMCs would be floating tender for 2022-23 ethanol blending year to the tune of 545 crore litre for 12% blending levels
- Ethanol blending of 20% is easily possible given material compatibility of new cars & bikes would get implemented by March 2023. With 20% blending by 2025-26, sugar industry would be sacrificing 7 MT of sugar

- The government has allowed additional 1.2 MT of exports in 2021-22, which would take the exports in the season to 11 MT. This would bring down sugar inventory to 5.8 MT (sufficient for two months of consumption) by September 2022

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	EPS growth (%)				EBITDA margins (%)				PE (x)				P/B (x)				RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
Balrampur Chini (BALCHI)	350	515 Buy	7354	-3.2	-0.3	20.1	51.2	14.8	14.4	16.5	18.6	15.3	15.4	12.8	8.5	2.8	2.7	2.4	2.2	16.4	15.3	16.0	23.1
Dalmia Bharat Sugar (DALSUG)	346	490 Buy	2796	39.9	10.0	15.8	16.5	17.6	14.8	18.0	19.0	10.3	9.4	8.1	7.0	1.4	1.3	1.3	1.1	13.3	12.3	15.5	17.7
Triveni Engineering (TRIENG)	226	350 Buy	5465	-9.9	43.9	17.1	21.8	11.9	14.8	14.9	17.1	18.5	12.9	11.0	9.0	3.7	3.0	2.5	2.1	19.4	15.8	18.3	20.5
Dwarikesh sugar (DWASUG)	108	150 Buy	2024	24.5	69.6	17.1	48.7	10.9	14.7	14.3	18.9	22.1	13.0	11.1	7.5	3.7	3.2	2.5	2.0	14.4	20.6	20.4	30.3
Avadh Sugar (AVASUG)	521	890 Buy	1042	-12.4	60.3	53.9	21.3	9.6	11.0	13.1	13.8	13.4	8.4	5.4	4.5	1.6	1.3	1.1	0.9	11.5	12.5	17.8	22.0

Source: Company, ICICI Direct Research

The last two sugar seasons were challenging for BCML due to lower availability of sugarcane in its catchment area adversely impacted by red rot disease in eastern UP. Moreover, extreme weather conditions (first unseasonal rains in October 2021 and then extreme heat in April 2022) resulted in lower sugar recovery in 2021-22 sugar season. This, along with the sugarcane price hike resulted in higher cost of production for BCML, specifically. However, currently when sugar millers in UP are preparing to start the new crushing season, it is important to know sugarcane crushing numbers for the 2022-23 sugar season. We believe the company has been able to replace 20-25% of its existing Co-0238 sugarcane variety with newer varieties. We believe the company would be able to increase its sugarcane crushing by ~20% in next season, which would help it regain profitability in sugar segment. On the ethanol front, the company would be commissioning its new distillery by December 2022, which would help it increase ethanol production to 35 crore litre by FY24E. We remain positive on the prospects of sugar industry, in general, and BCML, in particular. We maintain our **BUY** recommendation and target price of ₹ 515/share.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	
Total Operating Income	1,080.1	1,140.4	-5.3	1,279.6	-15.6	Revenue de-grew 5.3% on account of lower sugar sales & small increase in distillery revenues
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	890.4	852.0	4.5	728.5	22.2	Cost of production increased due to increase in sugarcane prices and lower recovery in 2021-22 sugar season
Employee Expense	74.0	65.6	12.7	88.9	-16.8	
Other operating Expenses	71.4	88.8	-19.6	131.2	-45.6	Overhead spends were down due to higher transportation costs in base quarter due to exports
EBITDA	44.4	134.0	-66.9	331.0	-86.6	Operating profit was down significantly mainly on account of lower sugarcane availability and, in turn, lower sugar production in the current season
EBITDA Margin (%)	4.1	11.8	-764 bps	25.9	-2176 bps	
Depreciation	28.2	29.3	-3.7	28.4	-0.7	
Interest	13.8	13.1	5.6	7.8	77.9	
Other Income	14.6	5.2	178.1	11.8	23.8	
PBT	16.9	96.8	-82.5	305.4	-94.5	
Tax Outgo	5.5	25.0	-78.1	64.0	-91.4	
PAT	12.4	76.9	-83.8	240.5	-94.8	Net profit down owing to lower operating profit during the quarter
Key Metrics						
Sugar sales volume (in lakh tonne)	2.1	2.4	-11.8	2.5	-14.9	The company received lower domestic sales quota and has not exported any sugar in Q1
Domestic Sugar realisation (₹ per kg)	35.6	33.2	7.2	34.8	2.3	Sugar realisation was up by 7.2%
Distillery volumes (in crore litre)	5.2	4.8	7.7	5.1	1.6	Higher distillery volumes on account of increasing diversion of sugarcane towards ethanol
Distillery realisation (₹ per litre)	54.2	53.7	0.9	55.2	-1.9	Distillery realisation remain flat

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			
	Old	New	% change	Old	New	% change	
Net sales	5,101.5	5,077.1	-0.5	5,853.3	6,071.2	3.7	
EBITDA	904.6	839.2	-7.2	1,199.7	1,129.9	-5.8	We cut our operating profit estimates on account of disappointing numbers in H1FY23E due to lower sugarcane crushing in 2021-22 season
EBITDA Margin (%)	17.7	16.5	-120 bps	20.5	18.6	-189 bps	
PAT	602.2	530.8	-11.9	784.8	761.0	-3.0	Profit from associates would also come down given the company has divested stake in one of its subsidiary in FY22
EPS (₹)	31.0	27.4	-11.8	42.6	41.3	-2.9	

Source: ICICI Direct Research

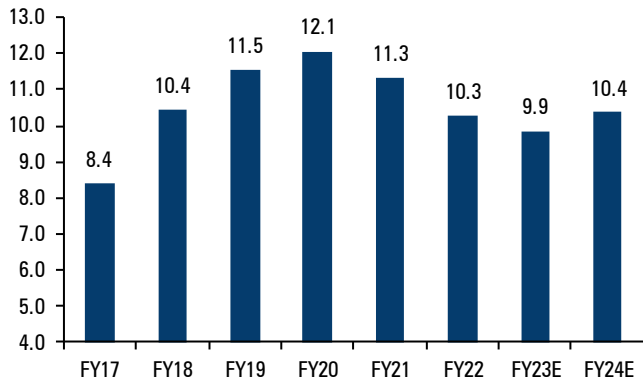
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sugar Sold (in tonne)	1,132,600	1,026,300	986,000	1,036,000	1,010,000	1,020,000	We cut our sales volumes estimates slightly for FY23E and increase it for FY24E according to domestic sales quota
Sugar Price (₹ per tonne)	32,008	34,712	35,576	35,693	35,500	36,000	
Distillery volume	165,204	176,500	226,800	346,500	231,000	336,000	We cut our distillery volume estimates slightly We increase our distillery realisation estimates upwards with the commencement of distillery in October 2022, which would be utilised for producing ethanol through sugarcane juice
Distillery price (₹ per KL)	48,350	55,219	57,980	60,879	55,515	57,736	We increase our power volume estimates with expectation of higher crushing in the next two years
Power Units sold	42.6	34.9	37.0	37.0	34.9	34.9	
Price per unit (₹ per units)	3.2	3.3	3.4	3.5	3.4	3.4	

Source: ICICI Direct Research

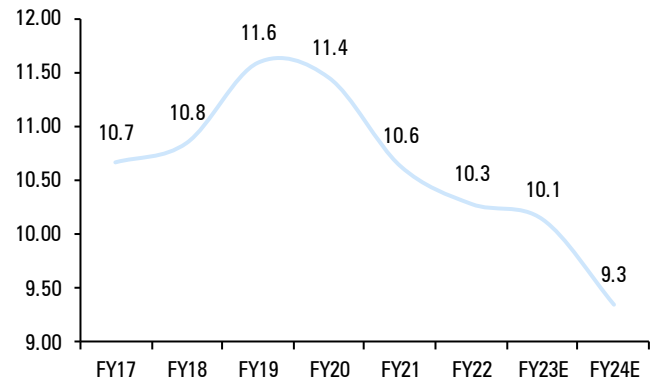
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



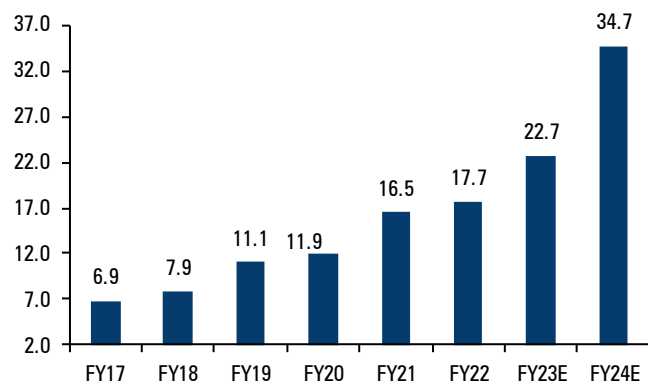
Source: ICICI Direct Research, Company

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



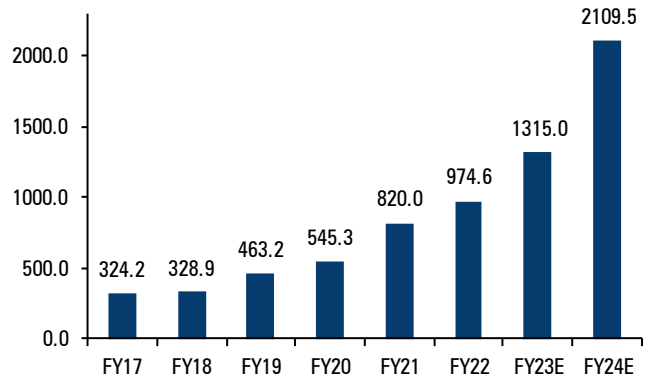
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



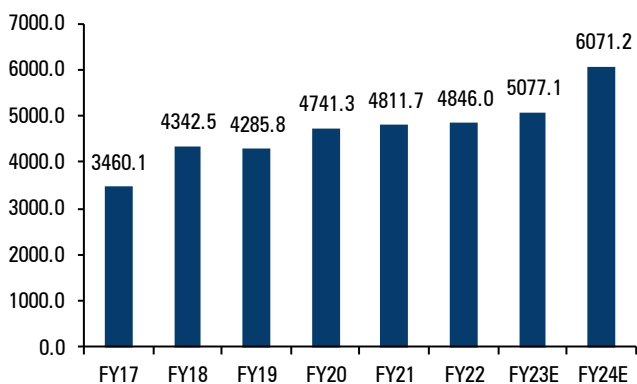
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



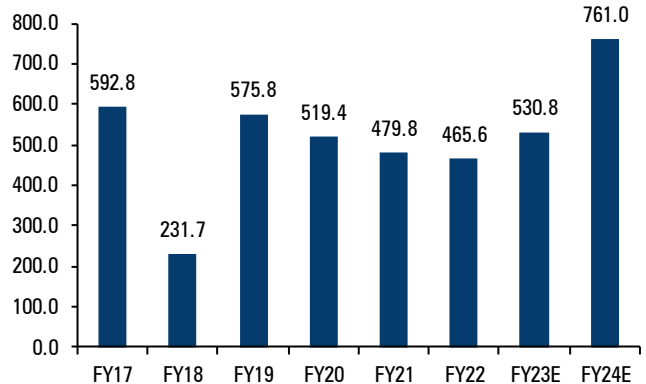
Source: Company, ICICI Direct Research

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	15.3	11.9	18.3	16.4
FY22	4846.0	0.7	22.8	-0.3	15.4	12.1	16.9	15.3
FY23E	5077.1	4.8	27.4	20.1	13.1	10.3	17.5	16.0
FY24E	6071.2	19.6	41.3	51.2	8.9	7.2	22.2	23.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	4,811.7	4,846.0	5,077.1	6,071.2
Growth (%)	1.5	0.7	4.8	19.6
Raw Material Expenses	3,456.0	3,456.1	3,599.9	4,234.4
Employee Expenses	281.7	307.8	323.2	342.6
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	360.1	382.4	314.8	364.3
Total Operating Expenditure	4,097.8	4,146.3	4,237.9	4,941.3
EBITDA	713.8	699.7	839.2	1,129.9
Growth (%)	4.7	-2.0	19.9	34.6
Depreciation	111.9	113.9	141.8	146.3
Interest	39.3	30.9	50.6	36.3
Other Income	26.9	33.0	36.3	34.5
PBT	562.7	555.0	646.8	947.3
Total Tax	129.4	134.1	157.1	225.8
PAT	479.8	464.6	530.8	761.0
Adjusted PAT	479.8	465.6	530.8	761.0
Growth (%)	-7.6	-3.0	14.0	43.4
Adjusted EPS (₹)	22.8	22.8	27.4	41.3

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	589.6	602.9	530.8	761.0
Add: Depreciation	111.9	113.9	141.8	146.3
Add: Interest	39.3	30.9	0.0	0.0
(Inc)/dec in Current Assets	106.2	373.7	123.1	72.4
Inc/(dec) in Current Liabilities	-140.1	-297.5	51.9	80.2
CF from operating activities	649.0	694.7	847.6	1,059.9
(Inc)/dec in Investments	15.7	0.3	-25.0	-25.0
(Inc)/dec in Fixed Assets	-97.8	-396.5	-801.2	-100.0
Others	0.9	86.8	3.0	0.0
CF from investing activities	-81.1	-309.4	-823.3	-125.0
Issue/(Buy back) of Equity	-223.2	-266.9	-200.0	-225.0
Inc/(dec) in loan funds	-251.1	-37.8	250.7	-550.0
Dividend paid & dividend tax	-52.5	-51.0	-119.4	-155.2
Inc/(dec) in Sec. premium	0.0	-0.1	69.9	0.0
Others	-42.1	-29.7	0.0	0.0
CF from financing activities	-568.9	-385.4	1.2	-930.2
Net Cash flow	-1.0	-0.1	25.5	4.7
Opening Cash	1.5	0.4	0.3	25.8
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
Closing Cash	0.4	0.3	25.8	30.5

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	21.0	20.4	19.9	19.4
Reserve and Surplus	2,598.1	2,737.8	3,019.5	3,400.7
Total Shareholders funds	2,619.1	2,758.2	3,039.4	3,420.1
Total Debt	1,134.6	1,210.7	1,461.4	911.4
Long Term Provisions	8.2	9.6	9.6	9.6
Other Non-current Liabilities	71.2	74.2	75.2	76.2
Total Liabilities	3,833.2	4,052.7	4,585.6	4,417.3
Assets				
Gross Block	2,202.0	2,352.0	3,152.0	3,252.0
Less: Acc Depreciation	604.2	718.1	859.9	1,006.3
Net Block	1,597.8	1,632.7	2,292.1	2,245.7
Capital WIP	14.5	204.3	204.3	204.3
Intangible assets	0.8	1.0	1.0	1.0
Non Current Investments	249.2	157.5	182.5	207.5
Other non-current assets	17.3	104.9	104.9	104.9
Current Assets				
Inventory	2,378.5	2,200.5	2,044.9	1,939.4
Debtors	245.5	136.7	169.2	202.4
Cash	2.8	3.3	25.8	30.5
Loans & Advances	0.0	0.0	0.0	0.0
Other Current Assets	127.7	36.0	36.0	36.0
Current Liabilities				
Creditors	596.4	281.9	330.7	391.0
Provisions	5.4	6.7	6.7	6.7
Other CL	199.0	135.5	137.7	156.6
Net Current Assets	1,953.6	1,952.3	1,800.9	1,654.0
Total Assets	3,833.2	4,052.7	4,585.6	4,417.3

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	22.8	22.8	27.4	41.3
Cash EPS	28.2	28.4	34.7	49.3
BV	124.7	135.2	152.7	176.3
DPS	2.5	3.0	6.0	8.0
Cash Per Share	28.8	35.2	43.2	51.9
Operating Ratios (%)				
EBITDA Margin	14.8	14.4	16.5	18.6
PBT / Net Sales	12.3	12.1	13.5	16.2
PAT Margin	10.0	9.6	10.5	12.5
Inventory days	180.4	165.7	147.0	116.6
Debtor days	18.6	10.3	12.2	12.2
Creditor days	45.2	21.2	23.8	23.5
Return Ratios (%)				
RoE	18.3	16.9	17.5	22.2
RoCE	16.4	15.3	16.0	23.1
Valuation Ratios (x)				
P/E	15.3	15.4	12.8	8.5
EV / EBITDA	11.9	12.1	10.3	7.2
EV / Net Sales	1.8	1.7	1.7	1.3
Market Cap / Sales	1.5	1.5	1.4	1.2
Price to Book Value	2.8	2.7	2.4	2.2
Solvency Ratios				
Debt/EBITDA	1.6	1.7	1.7	0.8
Debt / Equity	0.4	0.4	0.5	0.3
Current Ratio	4.3	7.4	6.1	5.0
Quick Ratio	0.6	0.5	0.6	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	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
Balrampur Chini (BALCHI)	350	515	Buy	7,354	22.8	22.8	27.4	41.3	15.3	15.4	12.8	8.5	11.9	12.1	10.3	7.2	2.8	2.7	2.4	2.2	16.4	15.3	16.0	23.1
Dalmia Bharat Sugar (DALSUG)	346	490	Buy	2,796	33.4	36.7	42.5	49.6	10.3	9.4	8.1	7.0	8.2	8.3	6.3	5.1	1.4	1.3	1.3	1.1	13.3	12.3	15.5	17.7
Triveni Engineering (TRIENG)	226	350	Buy	5,465	12.2	17.5	20.5	25.0	18.5	12.9	11.0	9.0	11.7	11.3	9.1	7.4	3.7	3.0	2.5	2.1	19.4	15.8	18.3	20.5
Dwarikesh sugar (DWASUG)	108	150	Buy	2,024	4.9	8.2	9.6	14.4	22.1	13.0	11.1	7.5	13.5	9.0	8.2	5.3	3.7	3.2	2.5	2.0	14.4	20.6	20.4	30.3
Avadh Sugar (AVASUG)	521	890	Buy	1,042	38.8	62.2	95.7	116.1	13.4	8.4	5.4	4.5	8.8	7.4	4.9	3.5	1.6	1.3	1.1	0.9	11.5	12.5	17.8	22.0

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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