

High sugarcane availability to bring back growth...

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 will complete its distillery capex of 490 KLD and modernisation, de-bottlenecking of its sugarcane crushing capacity by December 2022, which would take 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 and recovery

Q2FY23 Results: BCML reported dismal results with 8.3% dip in revenues.

- Sales down 8.3% with 1%, 14% dip in sugar, ethanol sales, respectively
- BCML posted EBITDA loss of ₹ 15.9 crore due to higher cost of production
- Consequently, the company posted a loss of ₹ 28.9 crore

What should investors do? BCML's share price has doubled in the last five years (from ₹ 162 in November 2017 to ₹ 329 in November 2022).

- We expect 39.5% distillery volume CAGR, which would boost the company's earnings at 20.4% CAGR during FY22-24E
- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 485, valuing the business at 13x 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 44.0% CAGR to ₹ 2021.2 crore in FY22-24E, which would be 33% of total revenues
- It is undertaking modernisation and 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 and sugar production through higher yields & better 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 and abundant sugarcane availability. It has increased its distillery capacity to 11 crore litre
- We value the stock at ₹ 135/share with **BUY** recommendation



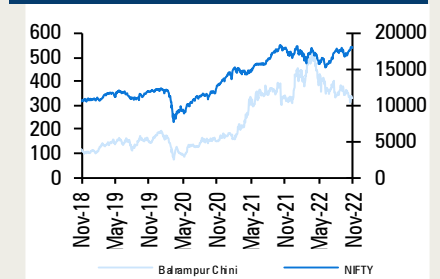
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	6,716.0
Total Debt (FY22)	1,210.7
Cash and Investments (FY22)	3.3
EV	7,923.4
52 week H/L (₹)	525 / 296
Equity capital	20.4
Face value (₹)	1.0

Shareholding pattern

(in %)	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	42.4	42.4	42.4	42.4
FII	19.1	17.0	16.2	15.3
DII	16.8	19.3	19.3	18.2
Others	21.7	21.3	22.1	24.1

Price Chart



Recent event & key risks

- Sugarcane crushing is expected to increase ~18% in the 2022-23 sugar season
- Key Risk:** (i) Higher-than-expected sugar production in country may dampen domestic sugar prices (ii) Extreme weather anomalies may 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	5197.9	6068.9	11.9%
EBITDA	682.0	713.8	-3.9	699.7	755.6	1082.4	24.4%
EBITDA Margin %	14.4	14.8		14.4	14.5	17.8	
Net Profit	519.4	479.8	-4.1	464.6	446.4	673.7	20.4%
EPS (₹)	23.6	22.8		22.8	23.0	36.6	26.8%
P/E	13.9	14.4		14.5	14.3	9.0	
RoNW %	21.5	18.3		16.9	15.1	20.2	
RoCE (%)	16.1	16.4		15.3	14.9	22.3	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q2FY23 Results: High sugarcane availability, increase in distillery capacity to aid earnings growth in H2FY23 & FY24

- Consolidated revenue witnessed de-growth of 8.3% to ₹ 1113.1 crore on account of low domestic sugar sales quota as well as decline in distillery volumes
- Sugar sales de-grew 1% to ₹ 936.2 crore. The company received domestic sugar sale quota of 2.5 lakh tonnes, 6% lower compared to the corresponding period last year. Sugar realisation was up 3.2% to ₹ 35.65/kg
- The company was holding 1.19 lakh tonnes (lt) of sugar valued at ₹ 34.82 per kg as on September 30, 2022 vs. 1.88 lt valued at ₹ 33.01 per kg on September 30, 2021
- Distillery sales declined 14% to ₹ 229.9 crore on the back of 10.7% de-growth in ethanol volumes and 1% dip in ethanol realisation. Given the company saw a considerable decline in sugarcane crush in 2021-22 season, molasses availability was also adversely impacted resulting in lower ethanol volumes
- Higher levy molasses obligation would also have resulted in lower availability of molasses for ethanol production. Blended distillery realisation was flat at ₹ 52.41/litre
- Gross margins declined 9 percentage points, mainly on account of higher cost of production given sugarcane prices were increased in 2021-22 season. Moreover, sugar recovery was also lower during the season. Most sugar companies saw higher employee spends during the quarter due to one-time spend towards wage arrears of the last three years
- BCML was also adversely impacted by wage arrears. The company posted an operating loss of ₹ 15.9 crore in Q2FY23. It posted a net loss of ₹ 28.9 crore during the quarter
- The government has allowed 6 million tonnes (MT) of exports by the industry in 2022-23 sugar season in the first tranche and is likely to allow further 3 MT of export by January-February 2023 after reassessing sugar production estimate. Industry has already contracted ~4 MT of sugar out of allowed 6 MT
- BCML has received 1.98 lt of export quota and has already contracted 1.4 lt, which includes 1.05 lt of refined white sugar contracted above ~₹ 38/kg and 0.35 lt of raw sugar contracted at ~₹ 34 /kg. The company has already exchanged rest of the quota with domestic sugar sale. BCML would be able to export ~90% of the entire quota by March-2023
- BCML is expected to crush 10.2-10.5 MT of sugarcane in 2022-23 season, which is ~18% higher compared to last year. The company has been able to increase 8% area under sugarcane acreage in its catchment area. Moreover, disease management, introduction of new variety is expected to result in higher sugarcane yield as well as sugar recoveries
- The company would be having sufficient sugarcane crushing capacity for 11.5 MT of sugarcane. Moreover, the possibility of increasing sugarcane acreage in east UP is higher compared to western and central UP
- Out of total sugarcane crushed, ~10% would be diverted to sugarcane juice route, ~18-20% would be required for ENA (under levy molasses/ENA) obligation and rest 70-72% would be diverted to B-heavy molasses. The company would be able to produce 28-30 crore litre of ethanol/ENA from molasses/juice route. Further, 5-6 crore litre of ethanol would be produced through grain based ethanol in 2022-23 season

- The company is expected to produce ~23 crore and ~35 crore litre of ethanol/ENA in FY23E and FY24E, respectively. We estimate 33% of the total revenues would be contributed by the distillery segment by FY24
- The company has announced an open market buyback for an amount not exceeding ₹ 145.4 crore at a share price not exceeding ₹ 360/share
- Income tax rate for FY23E and FY24E is expected to be ~30% given the company would be utilising MAT credit in the next two years. However, cash outflow from income tax would be much lower
- Sugar production in the country is expected to be 36.5 MT after diverting 4.5 MT of equivalent sugar for ethanol. Considering sugar consumption of 27.5 MT, the country would be having a surplus of 9 MT, which is likely to be exported
- Global raw sugar prices are prevailing at 18-20 cents/lb while refined white sugar prices are prevailing at US\$540/tonnes. These prices are better than domestic sugar prices of ₹ 36/kg. We believe the industry would be able to easily export 9 MT during the season. This would help keep the sugar inventory at 5.5-6.0 MT as on September 2023
- OMCs are looking to reach ethanol blending of 12% in 2022-23 procurement year, which would result in ~550 crore litre of ethanol procurement. Most of these quantities would be supplies by the sugar industry
- The government has increased ethanol prices between ₹ 1.65 per litre to 2.65 per litre for different feedstock. This would further encourage millers to set up distillery capacity in future

Exhibit 1: Peer Comparison

Sector / Company	CMP		TP	Rating	M Cap (₹ Cr)	EPS growth (%)				EBITDA margins (%)				PE (x)			P/B (x)			RoCE (%)				
	(₹)	(₹)				FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E
Balrampur Chini (BALCHI)	329	485	Buy	6716	-3.2	-0.3	1.0	59.1	14.8	14.4	14.5	17.8	14.4	14.5	14.3	9.0	2.6	2.4	2.3	2.0	16.4	15.3	14.9	22.3
Dalmia Bharat Sugar (DALISUG)	314	490	Buy	2545	39.9	10.0	14.2	18.1	17.6	14.8	17.7	19.0	9.5	8.7	7.6	6.4	1.2	1.1	1.1	1.0	13.3	12.3	15.8	17.7
Triveni Engineering (TRIENG)	273	380	Buy	6596	-9.9	43.9	28.0	24.8	11.9	14.8	13.5	16.8	22.7	15.8	12.3	9.9	4.3	3.5	2.2	2.0	19.4	15.8	20.7	24.6
Dwarkesh sugar (DWASUG)	90	135	Buy	1687	24.5	69.6	4.4	56.1	10.9	14.7	13.1	17.6	18.3	10.8	10.3	6.6	2.9	2.5	2.0	1.6	14.4	20.6	18.5	28.5
Avadh Sugar (AVASUG)	475	750	Buy	950	-12.4	60.3	25.2	28.4	9.6	11.0	12.0	12.9	14.4	14.5	14.3	9.0	1.4	1.2	1.0	0.9	11.5	12.5	15.3	19.8

Source: Company, ICICI Direct Research

Increase in sugarcane prices, subdued sugar prices along with lower recovery rate resulted in higher cost of production for UP based sugar companies in 2021-22 season. Further, one-time wage arrears payment and increase in levy molasses obligation aggravated the performance of sugar companies in H1FY23. The adverse impact for Balrampur Chini was more pronounced given lower sugarcane crushing during the season (its crushing was down 18% compared to its capacity). However, we believe higher sugarcane availability in its catchment area, expected improvement in sugar recovery, increase in blended realisation due to refined sugar exports and commissioning of large distillery capacity would improve profitability in the 2022-23 season. We expect 18-20% increase in sugarcane crushing & 20-30 bps improvement in sugar recovery for Balrampur Chini. This is expected to result in a significant improvement in profitability in Q4FY23 and FY24. We remain positive on the sugar industry and Balrampur Chini. We maintain our BUY recommendation with a revised target price of ₹485/share (earlier: ₹ 515/share).

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	1,113.1	1,213.8	-8.3	1,080.1	3.1	Revenue saw de-growth of 8.3% on account of 1% decline in sugar sales and 14% dip in distillery revenues
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	966.4	931.9	3.7	890.4	8.5	Cost of production was sharply up due to an increase in sugarcane prices and lower recovery rate in 2021-22 season
Employee Expense	95.0	70.7	34.3	74.0	28.4	Increase in employee spends due to wage arrears of last three years
Other operating Expenses	67.6	76.3	-11.4	71.4	-5.2	
EBITDA	-15.9	134.8	NC	44.4	-135.9	The company posted a loss at the operating level due to lower sales, increase in cost of production and one-off spends on account of wages
EBITDA Margin (%)	-1.4	11.1	NC	4.1	-554 bps	
Depreciation	28.3	28.2	0.7	28.2	0.5	
Interest	7.8	6.2	24.7	13.8	-43.9	
Other Income	11.7	4.6	156.6	14.6	-19.4	
PBT	-40.3	105.0	NC	16.9	-338.3	
Tax Outgo	-8.3	23.7	NC	5.5	-252.0	
PAT	-28.9	83.3	NC	12.4	-332.7	Loss at the operating level resulted in net loss
Key Metrics						
Sugar sales volume (in lakh tonne)	2.5	2.7	-8.5	2.1	15.5	Sugar volumes down due to lower domestic sales quota
Domestic Sugar realisation (₹ per kg)	35.7	34.5	3.2	35.6	0.1	Sugar realisation was slightly up
Distillery volumes (in crore litre)	4.1	4.6	-10.7	5.2	-20.7	Distillery volume was down 10.7% given the company exhausted molasses due to lower crushing last season
Distillery realisation (₹ per litre)	52.4	52.9	-0.9	54.2	-3.2	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% change	Old	New	% change	
Net sales	5,077.1	5,210.6	2.6	6,071.2	6,072.3	0.0	We change our sugar volume estimate for FY23
EBITDA	839.2	749.6	-10.7	1,129.9	1,082.6	-4.2	Higher levy obligation, increase in wages would change our FY23 & FY24 operating profit estimate accordingly
EBITDA Margin (%)	16.5	14.4	-214 bps	18.6	17.8	-78 bps	
PAT	530.8	442.2	-16.7	761.0	674.5	-11.4	We factor in higher tax rate of 30% given the company would be utilising MAT credit in the next two years
EPS (₹)	27.4	22.8	-16.7	41.3	36.7	-11.4	

Source: ICICI Direct Research

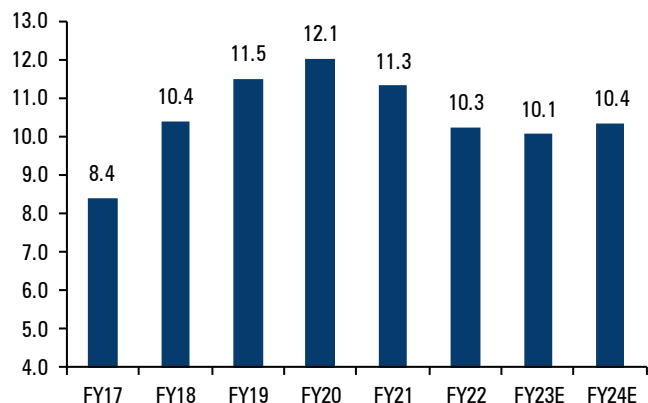
Exhibit 4: Assumptions

	Current				Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY23E	FY24E	
Sugar Sold (in tonne)	11,32,600	10,26,300	10,08,000	10,36,000	9,86,000	10,36,000	We increase our sugar sales volumes for FY23 factoring in 1.4 lakh tonnes of exports
Sugar Price (₹ per tonne)	32,008	34,712	35,872	36,193	35,576	35,693	Factoring in export realisation
Distillery volume	1,65,204	1,76,500	2,29,320	3,43,350	2,26,800	3,46,500	We change our distillery volumes estimate according to sugarcane crushing number
Distillery price (₹ per KL)	48,350	55,219	57,152	58,866	57,980	60,879	Factoring in high levy obligation & hence higher ENA volumes & lower blended realisation
Power Units sold	43	35	39	40	37	37	We change our power unit estimate with higher crushing
Price per unit (₹ per units)	3.2	3.3	3.4	3.5	3.4	3.5	

Source: ICICI Direct Research

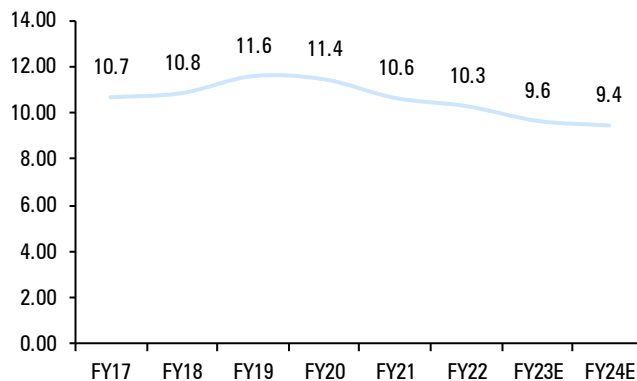
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



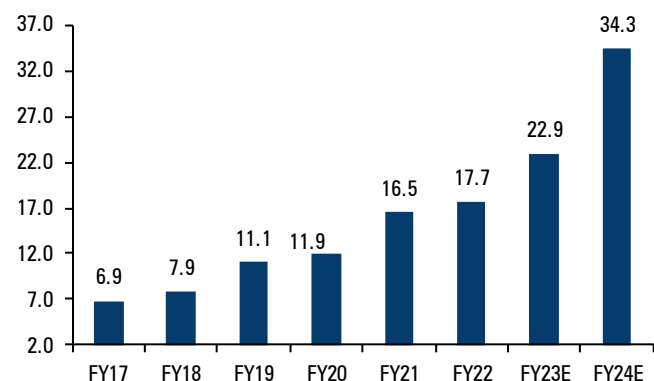
Source: ICICI Direct Research, Company

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



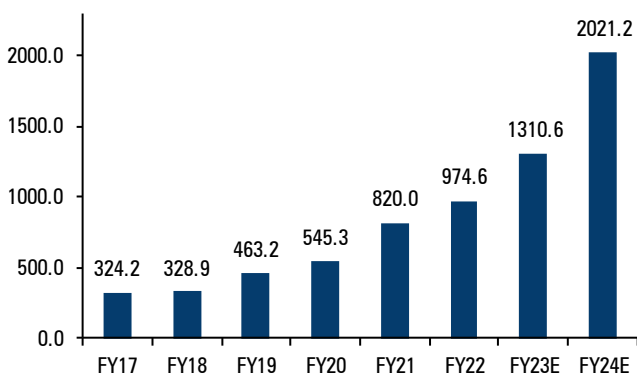
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



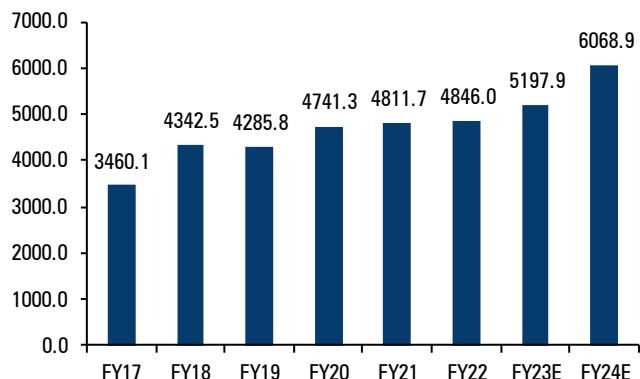
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



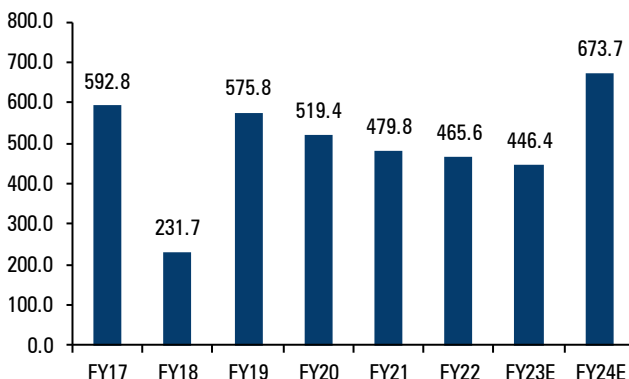
Source: Company, ICICI Direct Research

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	14.4	11.0	18.3	16.4
FY22	4846.0	0.7	22.8	-0.3	14.5	11.2	16.9	15.3
FY23E	5197.9	7.3	23.0	1.0	14.7	10.6	15.1	14.9
FY24E	6068.9	16.8	36.6	59.1	9.6	7.0	20.2	22.3

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	5,197.9	6,068.9
Growth (%)	1.5	0.7	7.3	16.8
Raw Material Expenses	3,456.0	3,456.1	3,798.0	4,273.1
Employee Expenses	281.7	307.8	332.4	352.4
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	311.9	361.1
Total Operating Expenditure	4,097.8	4,146.3	4,442.3	4,986.5
EBITDA	713.8	699.7	755.6	1,082.4
Growth (%)	4.7	-2.0	8.0	43.2
Depreciation	111.9	113.9	129.2	130.1
Interest	39.3	30.9	40.2	40.0
Other Income	26.9	33.0	39.6	37.6
PBT	562.7	555.0	586.2	912.3
Total Tax	129.4	134.1	187.7	285.0
PAT	479.8	464.6	446.4	673.7
Adjusted PAT	479.8	465.6	446.4	673.7
Growth (%)	-7.6	-3.0	-4.1	50.9
Adjusted EPS (₹)	22.8	22.8	23.0	36.6

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	446.4	673.7
Add: Depreciation	111.9	113.9	129.2	130.1
Add: Interest	39.3	30.9	0.0	0.0
(Inc)/dec in Current Assets	106.2	373.7	258.1	-45.0
(Inc)/dec in Current Liabilities	-140.1	-297.5	22.5	88.0
CF from operating activities	649.0	694.7	856.2	846.8
(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	-189.1	-139.1
(Inc)/dec in loan funds	-251.1	-37.8	220.7	-420.0
Dividend paid & dividend tax	-52.5	-51.0	-119.7	-157.6
(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	-18.2	-716.7
Net Cash flow	-1.0	-0.1	14.7	5.1
Opening Cash	1.5	0.4	0.3	15.0
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	15.0	20.2

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet ₹ crore

	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	21.0	20.4	20.0	19.7
Reserve and Surplus	2,598.1	2,737.8	2,945.7	3,323.0
Total Shareholders funds	2,619.1	2,758.2	2,965.6	3,342.7
Total Debt	1,134.6	1,210.7	1,431.4	1,011.4
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	4,481.8	4,439.9
Assets				
Gross Block	2,202.0	2,352.0	3,152.0	3,252.0
Less: Acc Depreciation	604.2	718.1	847.3	977.4
Net Block	1,597.8	1,632.7	2,304.7	2,274.6
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	1,905.9	1,921.8
Debtors	245.5	136.7	173.3	202.3
Cash	2.8	3.3	15.0	20.2
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	299.1	363.3
Provisions	5.4	6.7	6.7	6.7
Other CL	199.0	135.5	139.9	162.7
Net Current Assets	1,953.6	1,952.3	1,684.5	1,647.6
Total Assets	3,833.2	4,052.7	4,481.8	4,439.9

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios

	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	22.8	22.8	23.0	36.6
Cash EPS	28.2	28.4	29.7	43.7
BV	124.7	135.2	148.6	169.6
DPS	2.5	3.0	6.0	8.0
Cash Per Share	28.8	35.2	42.5	49.6
Operating Ratios (%)				
EBITDA Margin	14.8	14.4	14.5	17.8
PBT / Net Sales	12.3	12.1	12.0	15.7
PAT Margin	10.0	9.6	8.6	11.1
Inventory days	180.4	165.7	133.8	115.6
Debtor days	18.6	10.3	12.2	12.2
Creditor days	45.2	21.2	21.0	21.8
Return Ratios (%)				
RoE	18.3	16.9	15.1	20.2
RoCE	16.4	15.3	14.9	22.3
Valuation Ratios (x)				
P/E	14.4	14.5	14.3	9.0
EV / EBITDA	11.0	11.2	10.6	7.0
EV / Net Sales	1.6	1.6	1.5	1.3
Market Cap / Sales	1.4	1.4	1.3	1.1
Price to Book Value	2.6	2.4	2.3	2.0
Solvency Ratios				
Debt/EBITDA	1.6	1.7	1.9	0.9
Debt / Equity	0.4	0.4	0.5	0.3
Current Ratio	4.3	7.4	6.2	5.3
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)	329	485	Buy	6,716	22.8	22.8	23.0	36.6	14.4	14.5	14.3	9.0	11.0	11.2	10.6	7.0	2.6	2.4	2.3	2.0	16.4	15.3	14.9	22.3
Dalmia Bharat Sugar (DALSUG)	314	490	Buy	2,545	33.4	36.7	42.0	49.5	9.4	8.6	7.5	6.3	7.2	7.3	5.4	4.3	1.2	1.1	1.1	1.0	13.3	12.3	15.8	17.7
Triveni Engineering (TRIENG)	273	380	Buy	6,596	12.2	17.5	22.5	28.0	22.4	15.6	12.1	9.7	13.5	12.9	9.2	7.4	4.3	3.5	2.2	2.0	19.4	15.8	20.7	24.6
Dwarikesh sugar (DWASUG)	90	135	Buy	1,687	4.9	8.2	8.6	13.4	18.4	10.9	10.4	6.7	11.1	7.3	7.3	4.5	2.9	2.5	2.0	1.6	14.4	20.6	18.5	28.5
Avadh Sugar (AVASUG)	475	750	Buy	950	38.8	62.2	77.9	100.0	12.2	7.6	6.1	4.7	8.3	7.1	5.4	3.8	1.4	1.2	1.0	0.9	11.5	12.5	15.3	19.8

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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