

Balrampur Chini (BALCHI)

CMP: ₹ 362

Target: ₹ 435 (20%)

Target Period: 12 months

BUY

February 14, 2023

Sugarcane availability restored, sugar recovery up...

About the stock: Balrampur Chini (BCML) is the second largest sugar company with sugar crushing capacity of 77500 TCD, distillery capacity of 1050 KLD & co-generation capacity of 175.7 MW. It completed its distillery capex in December 2022, which has taken its total distillery capacity to 1050 KLD (35 crore litre).

- BCML has changed sugarcane variety in its 40% of catchment area. This would reduce dependence on Co-0238 and improve yield and recovery

Q3FY23 Results: BCML reported weak results with 19.1% de-growth in sales.

- Sales de-grew 19.1%, with sugar volumes down 25.4%
- EBITDA was down 20.2% at ₹ 79.7 crore, with margins at 8.1%
- Consequent PAT was at mere ₹ 46.3 crore (down 27.8% YoY)

What should investors do? BCML's share price has gone up 3x in the last five years (from ₹ 116 in February 2018 to ₹ 362 in February 2023).

- We expect 25.6% distillery volume CAGR, which would boost the company's earnings by 11.1% CAGR during FY22-25E
- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value the stock at ₹ 435, valuing the business at 14x FY24 PE.

Key triggers for future price performance:

- After two consecutive years of poor sugarcane availability & dip in recovery, BCML is likely to see ~15% increase in sugarcane crushing & 15-20 bps higher sugar recovery. This would boost distillery volumes in next two years
- With completion of large distillery capex, BCML has increased its ethanol capacity by 2x to 35 crore litre. Distillery sales to witness 29% CAGR in FY22-25E to ₹ 2091.2 crore, which would be 33% of total revenues
- BCML started replacing Co-0238 with newer sugarcane varieties in its catchment areas, which would improve sugarcane yields and sugar recovery, going forward. De-bottlenecking in some plants would also help in crushing sugarcane early, which would improve sugar recovery

Alternate Stock Idea: We also like Dalmia Bharat Sugar in our sugar coverage.

- It has expanded its distillery capacity to 23 crore litre from 12 crore litre, which would help in utilising sugarcane juice, grains & B-heavy molasses to produce ethanol. Distillery sales to contribute 42% to overall revenues
- We value the stock at ₹ 490, ascribing a multiple of 12x FY24 earnings



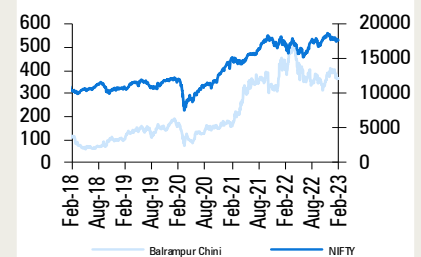
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	7,376.0
Total Debt (FY22)	1,210.7
Cash and Investments (FY22)	3.3
EV	8,583.5
52 week H/L (₹)	526 / 307
Equity capital	20.4
Face value (₹)	1.0

Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	42.4	42.4	42.4	42.4
FII	17.0	16.2	15.3	13.9
DII	19.3	19.3	18.2	19.8
Others	21.3	22.1	24.1	24.0

Price Chart



Recent event & key risks

- Announced plan to raise sugarcane crushing capacity by 2000 TCD (2% of overall) in its Kumbi plant with capex of ₹ 104.5 crore
- Key Risk:** (i) Any irrational increase in SAP prices (ii) Extreme weather anomalies may impede sugarcane availability & sugar recovery

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Key Financial Summary

Key Financials	FY21	FY22	5 Year CAGR (FY17 to FY22)	FY23E	FY24E	FY25E	CAGR (FY22-25E)
Total Operating Income	4811.7	4846.0	7.0	4772.2	5929.2	6392.5	9.7%
EBITDA	713.8	699.7	-4.2	570.7	959.1	1061.6	14.9%
EBITDA Margin %	14.8	14.4		12.0	16.2	16.6	
Net Profit	479.8	464.6	-4.8	334.5	570.6	636.5	11.1%
EPS (₹)	22.8	22.8		17.2	31.0	36.6	17.1%
P/E	15.8	15.9		21.0	11.7	9.9	
RoNW %	18.3	16.9		11.4	16.7	17.2	
RoCE (%)	16.4	15.3		10.8	19.0	20.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q3FY23 Results: Sugar crushing likely to be up 15%, sugar recovery to improve by 15-20 bps

- Consolidated revenues witnessed de-growth of 19.1% to ₹ 981.2 crore on account of 14.0% & 8.1% dip in sugar & distillery sales, respectively
- The decline in sugar sales was mainly due to 25.4% dip in sugar volumes given the company was holding low sugar inventory at the start of October-2022. The company sold 2.03 lakh tonnes (lt) of sugar during the quarter, which included 0.65 lt of exports and remaining 1.37 lt of domestic sales. Sugar realisation was flat at ₹ 36.5/kg
- The 8.1% de-growth in distillery sales was mainly on account of a decline in distillery volumes by 10.3% to 2.8 crore litre due to late start of crushing season & delay in commissioning of 170 KLD distillery at Balrampur unit (in mid-December). Distillery realisation was up 2.8% to ₹ 52.1/litre led by higher volume contribution from ethanol produced from sugarcane juice
- Power volumes were down 4.6% to 8.93 crore units with average tariff of ₹ 3.41/unit (up 3.6%). The company is holding 1.32 lt of bagasse valued at ₹ 1.8/kg as on December 2022 vs. 1.12 lt valued at ₹ 1.4/kg
- With late start of crushing season, distillery volumes would be 20.5 crore litre in FY23. We estimate distillery volumes of 33 crore litre and 35 crore litre in FY24E and FY25E, respectively
- The company is holding 1.58 lakh tonnes of sugar valued at ₹ 35.47/kg at the end of December-2022. With the higher crushing numbers and increase in sugar recovery, inventory costs would come down
- The company crushed 2.61 lt of sugarcane (till December-2022). It is expected to crush 103 lt in 2022-23 season, which would be 15% higher compared to last season. Moreover, we expect 15-20 bps higher sugar recovery in 2022-23 season (lower by 15 bps from peak recovery)
- In the current season, the company diverted 65.5% of its sugarcane towards B-heavy ethanol, 5.9% towards sugarcane juice & remaining 28.6% towards ENA / C-heavy ethanol (till December 2022). Transfer pricing for B-heavy molasses was ₹ 10.3/kg during the quarter
- Operating profit de-grew 20.2% to ₹ 79.7 crore during the quarter with operating margin of 8.1%. The decline in profit was mainly due to lower sugar & distillery sales volumes & increase in fixed costs (employee & overhead spends)
- Interest cost increased 57.4% to ₹ 5.9 crore on account of completion of capex & increase in debt for the same. Other income increased by 74.3% to ₹ 20.2 crore. PAT declined 27.8% to ₹ 46.3 crore impacted by lower operating profit, higher interest cost & depreciation provisioning
- The decline in distillery revenue was mainly due to late start of crushing in eastern UP. Further, the company added 320 KLD & 170 KLD capacity at Maizapur & Balrampur unit, respectively, only in the middle of the quarter, which would have contributed minimal volumes during the current quarter
- The company has completed its entire distillery capex, which has taken its total distillery capacity to 35 crore litre per annum. With this capacity, it has become the largest ethanol supplier in the country
- The company has replaced 40% of the sugarcane in its catchment area with newer variety. This would help reduce its dependence on Co-0238. It would encourage four to five sugarcane varieties rather than concentrating on one single variety
- BCML has announced a capex of ₹ 104.5 crore for the expansion of distillery capacity by 2000 TCD (2% of overall crushing capacity) at its Kumbi plant. The expansion would be completed by November-2023

- The company declared a dividend of ₹ 2.5/share during the quarter
- Industry wide sugar production is expected to be 34 million tonnes (MT). Given sugar consumption is 27.5 MT and export of 6.1 MT, sugar inventory levels are likely to remain similar to previous year's levels (~5.5 MT by September 2023)
- With tight sugar supply, any further dip in sugar production or filling of trade pipe line inventories would push domestic sugar prices by ₹ 2-3/kg to ₹ 37-38/kg

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	EPS growth (%)			EBITDA margins (%)			PE (x)			P/B (x)			RoCE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E
Balrampur Chini (BALCHI)	362	435	Buy	7376	-0.1	-26.5	70.6	14.4	12.0	16.2	15.9	21.0	11.7	2.7	2.5	2.2	15.3	10.8	19.0
Dalmia Bharat Sugar (DALSUG)	345	490	Buy	2791	10.0	-1.5	17.4	14.8	15.2	16.5	9.0	9.2	7.8	1.1	1.2	1.0	12.3	13.7	15.7
Triveni Engineering (TRIENG)	280	360	Buy	6776	45.9	17.2	23.3	14.8	12.2	16.2	15.4	13.1	10.6	3.4	2.2	2.1	15.8	17.4	18.9
Dwarikesh sugar (DWASUG)	90	120	Buy	1687	69.6	-8.8	34.8	14.7	12.7	15.2	10.8	11.8	8.8	2.5	2.1	1.8	20.6	18.8	21.9
Dhampur Sugar (DHASUG)	212	270	Buy	1410	0.5	8.5	13.9	15.3	12.7	14.2	9.8	9.0	7.9	1.7	1.5	1.4	13.9	15.3	17.7
Avadh Sugar (AVASUG)	443	750	Buy	885	60.3	25.2	28.4	11.0	12.0	12.9	15.9	21.0	11.7	1.2	1.0	0.9	12.5	15.3	19.8

Source: Company, ICICI Direct Research

BCML is one of the biggest and most efficient sugar companies in India. With the completion of its distillery capex, it has reached annual ethanol production capacity of 35 crore litre (largest in India). In the last two seasons, the company has been adversely impacted by lower sugarcane availability, adverse sugar recovery due to red rot issues and unseasonal rains in its catchment area. We believe that in the current season (2022-23), sugarcane crushing as well as sugar recovery should recover to higher levels. However, the sharp recovery in operational volumes would be reflected in FY24 & FY25E numbers. Moreover, ~26% distillery volumes CAGR during FY22-25E would result in strong earnings growth despite challenges related to sugar recovery (in last two seasons). We maintain our BUY recommendation with a revised target price of ₹ 435/share (earlier: ₹ 485).

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	
Total Operating Income	981.2	1,212.2	-19.1	1,113.1	-11.9	Net sales de-grew 19.1% mainly due to lower sugar and ethanol sales volumes
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	713.7	943.7	-24.4	966.4	-26.2	Cost of production was higher given the company sold 2021-22 season inventory during the quarter, which was impacted by lower recovery & increase in sugarcane prices
Employee Expense	93.8	82.5	13.7	95.0	-1.2	
Other operating Expenses	94.0	86.1	9.2	67.6	38.9	Higher freight cost due to raw sugar export during the quarter
EBITDA	79.7	99.8	-20.2	-15.9	-600.1	
EBITDA Margin (%)	8.1	8.2	-11 bps	-1.4	955 bps	
Depreciation	32.8	28.0	17.1	28.3	15.6	Depreciation provisioning given the company completed large capex in FY23
Interest	5.9	3.7	57.4	7.8	-24.2	Higher finance cost on debt taken for capex
Other Income	20.2	11.6	74.3	11.7	72.6	
PBT	61.3	79.7	-23.1	-40.3	-252.0	
Tax Outgo	17.2	21.4	-19.3	-8.3	-307.1	
PAT	46.3	64.1	-27.8	-28.9	-259.9	Net profit decline due to dip in operating profit, higher interest & depreciation provisioning
Key Metrics						
Sugar sales volume (in lakh tonne)	2.0	2.7	-25.4	2.5	-19.0	The dip in sugar volumes due to lower domestic sales quota
Domestic Sugar realisation (₹ per kg)	36.5	36.3	0.4	35.7	2.1	Sugar realisation was flat
Distillery volumes (in crore litre)	2.8	3.1	-10.3	4.1	-32.0	Distillery volumes impacted due to late start of crushing operations
Distillery realisation (₹ per litre)	52.1	50.7	2.8	52.4	-0.6	Higher contribution from ethanol produced from sugarcane juice aided distillery realisation

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	
	Old	New	% change	Old	New	% change	New	
Net sales	5,210.6	4,772.2	-8.4	6,072.3	5,929.2	-2.4	6,392.5	We cut our sales estimate due to lower domestic sales quota & late start of crushing operations in 2022-23 season
EBITDA	749.6	570.7	-23.9	1,082.6	959.1	-11.4	1,061.6	The decline in operating profit estimate as sugar recovery is only improving by 15-20 bps as against earlier estimate of 30 bps
EBITDA Margin (%)	14.4	12.0	-243 bps	17.8	16.2	-165 bps	16.6	
PAT	442.2	334.5	-24.4	674.5	570.6	-15.4	636.5	We increase our interest cost estimate for FY24 due to higher working capital requirement
EPS (₹)	22.8	17.2	-24.4	36.7	31.0	-15.5	36.6	

Source: ICICI Direct Research

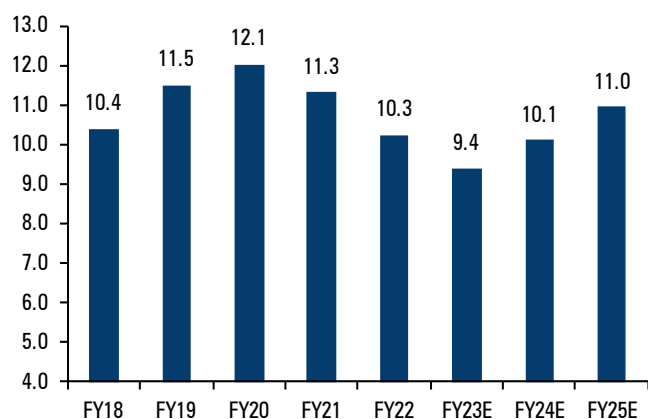
Exhibit 4: Assumptions

	Current					Earlier		Comments
	FY21	FY22	FY23E	FY24E	FY25E	FY23E	FY24E	
Sugar Sold (in tonne)	11,32,600	10,26,300	9,41,600	10,12,000	10,96,000	10,08,000	10,36,000	We cut our sugar sales volume estimates with dip in sugar sales quota in FY23 & similar trend expected in FY24
Sugar Price (₹ per tonne)	32,008	34,712	36,149	36,530	37,000	35,872	36,193	We increase sugar realisation estimate mainly due to higher exports realisation during the season
Distillery volume	1,65,204	1,76,500	2,05,800	3,30,750	3,50,000	2,29,320	3,43,350	We cut our distillery volume estimates due to late start of crushing in the current season
Distillery price (₹ per KL)	48,350	55,219	57,428	58,577	59,748	57,152	58,866	We slightly change distillery realisation estimate
Power Units sold	43	35	34	39	40	39	40	Power volume would be impacted due to late start of crushing
Price per unit (₹ per units)	3.2	3.3	3.4	3.5	3.6	3.4	3.5	

Source: ICICI Direct Research

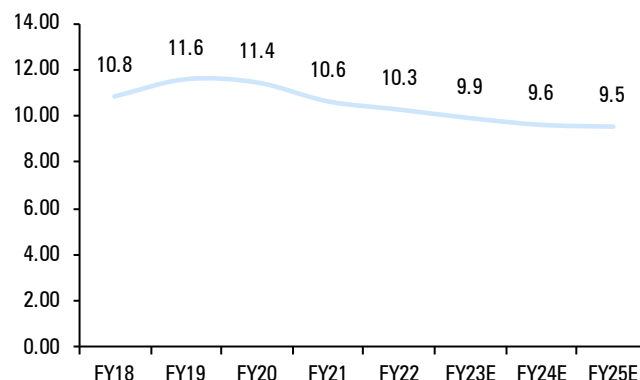
Key Metrics

Exhibit 5: Sugar sales volume (in lakh tonne)



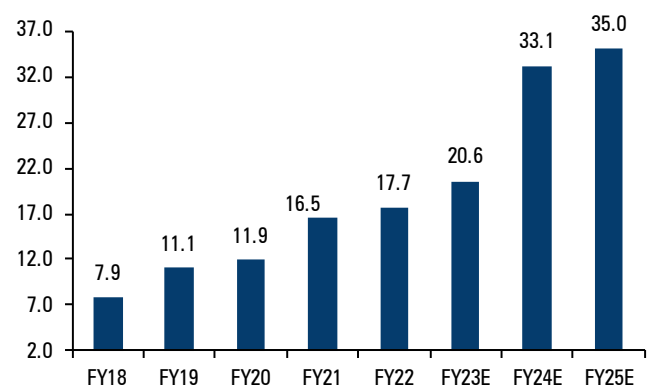
Source: ICICI Direct Research, Company

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



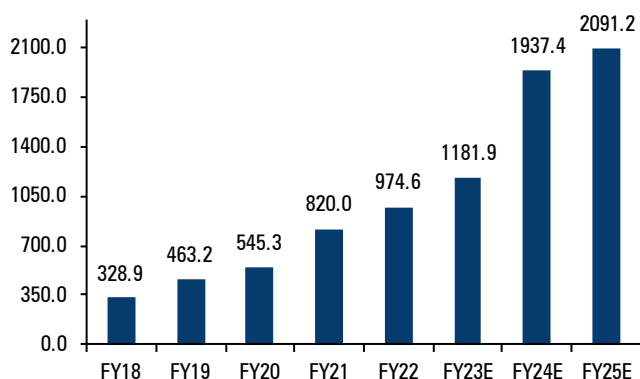
Source: ICICI Direct Research, Company

Exhibit 7: Ethanol volumes (in crore litre)



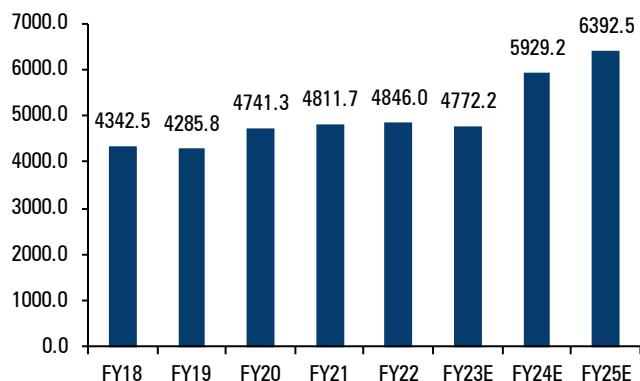
Source: Company, ICICI Direct Research

Exhibit 8: Ethanol sales (₹ crore)



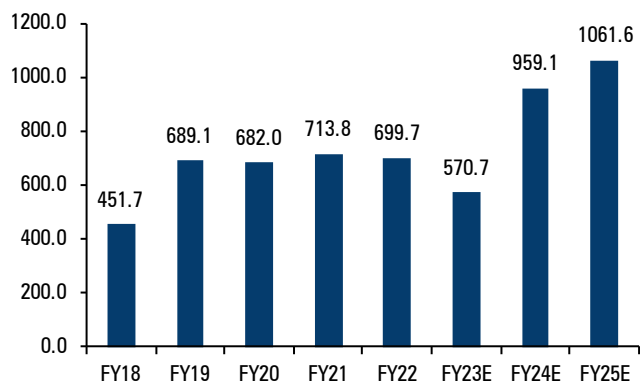
Source: Company, ICICI Direct Research

Exhibit 9: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: EBITDA trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 11: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY22	4846.0	0.7	22.8	-0.3	15.9	12.1	16.9	15.3
FY23E	4772.2	-1.5	17.2	-24.3	21.0	15.7	11.4	10.8
FY24E	5929.2	24.2	31.0	79.9	11.7	8.6	16.7	19.0
FY25E	6392.5	7.8	36.6	18.0	9.9	7.7	17.2	20.4

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Total Operating Income	4,846.0	4,772.2	5,929.2	6,392.5
Growth (%)	0.7	-1.5	24.2	7.8
Raw Material Expenses	3,456.1	3,480.0	4,236.2	4,549.6
Employee Expenses	307.8	354.0	375.2	397.7
Administrative Expenses	0.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	382.4	367.5	358.7	383.5
Total Operating Expenditure	4,146.3	4,201.5	4,970.1	5,330.8
EBITDA	699.7	570.7	959.1	1,061.6
Growth (%)	-2.0	-18.4	68.1	10.7
Depreciation	113.9	125.1	147.2	144.1
Interest	30.9	39.3	60.2	55.0
Other Income	33.0	63.0	50.4	45.4
PBT	555.0	406.3	751.7	862.4
Total Tax	134.1	143.1	240.6	281.4
PAT	464.6	334.5	570.6	636.5
Adjusted PAT	465.6	334.5	570.6	636.5
Growth (%)	-3.0	-28.1	70.6	11.5
Adjusted EPS (₹)	22.8	17.2	31.0	36.6

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit/Loss after Tax	602.9	334.5	570.6	636.5
Add: Depreciation	113.9	125.1	147.2	144.1
Add: Interest	30.9	0.0	0.0	0.0
(Inc)/dec in Current Assets	373.7	57.2	106.0	-258.6
Inc/(dec) in Current Liabilities	-297.5	19.8	62.0	38.5
CF from operating activities	694.7	536.6	885.9	560.5
(Inc)/dec in Investments	0.3	-25.0	-25.0	-25.0
(Inc)/dec in Fixed Assets	-396.5	-801.2	-120.0	-80.0
Others	86.8	3.0	0.0	0.0
CF from investing activities	-309.4	-823.3	-145.0	-105.0
Issue/(Buy back) of Equity	-266.9	-189.1	0.0	-250.0
Inc/(dec) in loan funds	-37.8	480.7	-660.0	-100.0
Dividend paid & dividend tax	-51.0	-49.9	-79.8	-97.3
Inc/(dec) in Sec. premium	-0.1	69.9	0.0	0.0
Others	-29.7	0.0	0.0	0.0
CF from financing activities	-385.4	311.6	-739.8	-447.3
Net Cash flow	-0.1	25.0	1.1	8.2
Opening Cash	0.4	0.3	25.3	26.4
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	0.3	25.3	26.4	34.6

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
	FY22	FY23E	FY24E	FY25E
Liabilities				
Equity Capital	20.4	20.0	20.0	19.5
Reserve and Surplus	2,737.8	2,903.6	3,394.4	3,684.2
Total Shareholders funds	2,758.2	2,923.6	3,414.4	3,703.6
Total Debt	1,210.7	1,691.4	1,031.4	931.4
Long Term Provisions	9.6	9.6	9.6	9.6
Other Non-current Liabilities	74.2	75.2	76.2	77.2
Total Liabilities	4,052.7	4,699.8	4,531.6	4,721.8
Assets				
Gross Block	2,352.0	3,152.0	3,272.0	3,352.0
Less: Acc Depreciation	718.1	843.2	990.5	1,134.6
Net Block	1,632.7	2,308.8	2,281.5	2,217.4
Capital WIP	204.3	204.3	204.3	204.3
Intangible assets	1.0	1.0	1.0	1.0
Non Current Investments	157.5	182.5	207.5	232.5
Other non-current assets	104.9	104.9	104.9	104.9
Current Assets				
Inventory	2,200.5	2,121.0	1,976.4	2,219.6
Debtors	136.7	159.1	197.6	213.1
Cash	3.3	25.3	26.4	34.6
Loans & Advances	0.0	0.0	0.0	0.0
Other Current Assets	36.0	36.0	36.0	36.0
Current Liabilities				
Creditors	281.9	297.1	336.1	363.2
Provisions	6.7	6.7	6.7	6.7
Other CL	135.5	139.2	161.2	171.5
Net Current Assets	1,952.3	1,898.3	1,732.4	1,961.8
Total Assets	4,052.7	4,699.8	4,531.6	4,721.8

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	22.8	17.2	31.0	36.6
Cash EPS	28.4	23.7	39.0	44.9
BV	135.2	146.5	171.1	190.4
DPS	3.0	2.5	4.0	5.0
Cash Per Share	35.2	42.3	49.6	58.3
Operating Ratios (%)				
EBITDA Margin	14.4	12.0	16.2	16.6
PBT / Net Sales	12.1	9.8	13.5	14.2
PAT Margin	9.6	7.0	9.6	10.0
Inventory days	165.7	162.2	121.7	126.7
Debtor days	10.3	12.2	12.2	12.2
Creditor days	21.2	22.7	20.7	20.7
Return Ratios (%)				
RoE	16.9	11.4	16.7	17.2
RoCE	15.3	10.8	19.0	20.4
Valuation Ratios (x)				
P/E	15.9	21.0	11.7	9.9
EV / EBITDA	12.1	15.7	8.6	7.7
EV / Net Sales	1.7	1.9	1.4	1.3
Market Cap / Sales	1.5	1.5	1.2	1.2
Price to Book Value	2.7	2.5	2.2	2.0
Solvency Ratios				
Debt/EBITDA	1.7	3.0	1.1	0.9
Debt / Equity	0.4	0.6	0.3	0.3
Current Ratio	7.4	6.9	5.9	6.1
Quick Ratio	0.5	0.6	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)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E
Balrampur Chini (BALCHI)	362	435	Buy	7,376	22.8	17.2	31.0	15.9	21.0	11.7	12.1	15.7	8.6	2.7	2.5	2.2	15.3	10.8	19.0
Dalmia Bharat Sugar (DALSUG)	345	490	Buy	2,791	36.7	36.2	42.5	9.4	9.5	8.1	7.5	7.0	5.5	1.1	1.2	1.0	12.3	13.7	15.7
Triveni Engineering (TRIENG)	280	360	Buy	6,776	17.7	20.8	25.7	15.8	13.5	10.9	12.7	10.7	8.4	3.4	2.2	2.1	15.8	17.4	18.9
Dwarikesh sugar (DWASUG)	90	120	Buy	1,687	8.2	7.5	10.1	10.9	11.9	8.8	7.4	7.7	6.2	2.5	2.1	1.8	20.6	18.8	21.9
Dhampur Sugar (DHASUG)	212	270	Buy	1,410	21.7	23.5	26.8	9.8	9.0	7.9	7.9	7.1	5.9	1.7	1.5	1.4	13.9	15.3	17.7
Avadh Sugar (AVASUG)	443	750	Buy	885	62.2	77.9	100.0	7.1	5.7	4.4	7.1	5.4	3.8	1.2	1.0	0.9	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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