

Robust cash flow generation; significant debt reduction

Balrampur Chini reported a strong set of numbers with 50.5% revenue growth led by 41.7% growth in sugar segment & 96.2% growth in distillery segment. The higher sugar sales were led by higher domestic monthly sales quota whereas distillery segment witnessed robust growth mainly on account of higher volumes led by commissioning of 160 KLD distillery in January 2020. The company sold 3.07 lakh tonnes (lt) of sugar & 5.6 crore litre of ethanol/ENA during the quarter. Operating profit was down 17.3% mainly due to higher off-season spends & low sugar inventory (the company liquidated large part of inventory in H1FY21). The sugar profitability is low in September quarter due to low power sales, higher off-season spends & sugar inventory positioning. In contrast, profitability is disproportionately high in March quarter. PAT declined 21.5% to ₹ 78.3 crore.

Strengthened balance sheet

With 3.14 lt of sugar exports in 2019-20 and considerable sacrifice of sugar by diverting sugarcane for B heavy ethanol, BCML was able to reduce its sugar inventory by 2.5 lt in the last one year. The company generated operating cash flow of ~₹ 1500 crore (₹ 670 crore in September 2019) & reduced its working capital debt by ₹ 1058 crore. We expect it to generate ₹ 1143 crore & ₹ 847 crore of operating cash flow & reduce its overall debt by ₹ 623 crore & ₹ 215 crore in FY21E & FY22E, respectively. BCML is holding 2.4 lt of sugar as on September 2020, which would be exhausted by mid-December 2020. With such low inventory at disposal, it would not need to export sugar in 2020-21 if subsidy is not announced.

Capex for new distillery announced

BCML announced capacity addition for new distillery of 320 KLD with the capex of ₹ 320 crore at its Maizapur Plant. The new distillery will be utilised for producing ethanol from sugarcane juice & grain. It would be fungible plant for multiple feedstock (C heavy, B heavy, grains, sugarcane juice). The company would incur ~₹ 220 crore debt for this project available at 3.5% interest rate under the ethanol capacity enhancement plan by government. The distillery would be commissioned in November 2022. We believe BCML would be able to sacrifice additional 70,000 tonnes of sugar with this capacity & be able to produce 10 crore litre of ethanol by utilising sugarcane juice in season & broken rice in off-season. The new facility would start contributing to revenues & EBITDA by FY23E.

Valuation & Outlook

BCML is most efficient sugar company with sustainable earnings & strong cash flow generation. It has been giving ~40% payout through dividends and buybacks. With the significant increase in cash flow generation, we expect payout to increase to 60% in FY22E, which would be more than ~10% payout yield at current price. We value the stock at 1.6x FY21E P/BV with a revised target price of ₹ 210/share. We maintain our **BUY** rating.



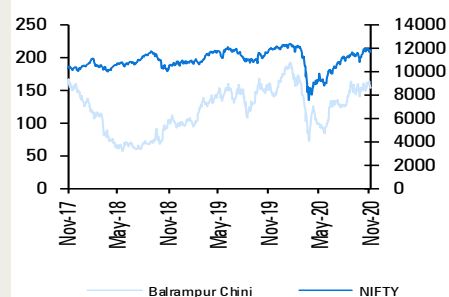
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	3,150.0
Total Debt (FY20)	1,399.0
Cash and Investments (FY20)	4.7
EV	4,544.3
52 week H/L (₹)	195 / 69
Equity capital	21.0
Face value (₹)	1.0

Key Highlights

- The company sold 3.07 lakh tonnes of sugar (up by 40.5%) led by higher domestic quota and 5.6 crore litres of ethanol (up by 83.4%) with capacity addition in January 2020
- Working capital debt down from ₹ 1058 crore to zero
- Maintain BUY rating on stock with target price of ₹ 210/share

Price Chart



Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	4342.5	4285.8	4741.3	5384.7	5256.7	5.3%
EBITDA	451.7	689.1	682.0	823.6	866.2	12.7%
EBITDA Margin %	10.4	16.1	14.4	15.3	16.5	
Net Profit	231.7	575.8	519.4	557.5	604.0	7.8%
Adjusted PAT	231.7	1.5	519.4	557.5	604.0	7.8%
EPS (₹)	10.14	25.21	23.61	26.55	30.20	
P/E	14.8	6.0	6.4	5.7	5.0	
RoNW %	14.3	27.2	21.5	20.7	20.9	
RoCE (%)	14.28	16.26	16.12	21.22	22.34	

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	1,289.8	857.0	50.5	1,430.8	-9.9	Net sales increased by 50.5% led by higher sugar & ethanol volumes. The company got higher domestic sales quota. The ethanol volume were higher mainly due to commissioning of 160 KLD distillery
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	1,028.7	586.0	75.5	1,075.4	-4.3	
Employee Expense	64.8	57.7	12.2	64.2	0.9	
Other operating Expenses	68.6	58.7	16.9	73.3	-6.4	
EBITDA	127.7	154.6	-17.3	217.9	-41.4	Operating profit declined due to inventory positioning & higher off-season maintenance spends. Sugar companies profitability in disproportionately higher in March quarter
EBITDA Margin (%)	9.9	18.0	-813 bps	15.2	-533 bps	
Depreciation	28.2	24.8	13.5	27.8	1.3	
Interest	9.0	16.6	-45.7	15.6	-42.2	
Other Income	4.6	5.7	-19.4	3.3	37.2	
PBT	95.1	118.8	-19.9	177.8	-46.5	
Tax Outgo	21.2	21.7	-2.3	44.2	-52.1	
PAT	78.3	99.8	-21.5	139.5	-43.9	Net profit declined 21.5% due to lower EBITDA
Key Metrics						
Sugar sales volume (in lakh tonne)	3.1	2.2	40.5	3.6	-13.7	Sugar volumes were higher due to increased domestic sale quota
Sugar realisation (₹ per kg)	33.0	33.4	-1.2	31.9	3.5	Sugar realisation marginally dip in Q2
Distillery volumes (in crore litre)	5.6	3.0	83.8	4.3	28.3	Higher distillery volumes led by commissioning of 160 KLD plant in January 2020
Distillery realisation (₹ per litre)	45.6	42.8	6.7	49.9	-8.6	

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Net sales	5446.0	5384.7	-1.1	5,262.2	5,256.7	-0.1	We change our estimates factoring in delay in announcement of export subsidy, increased MSP & higher distillery volumes
EBITDA	831.8	823.6	-1.0	847.2	866.2	2.2	
EBITDA Margin (%)	15.3	15.3	2 bps	16.1	16.5	38 bps	
PAT	570.8	557.5	-2.3	611.1	604.0	-1.2	
EPS (₹)	27.2	26.5	-2.4	30.6	30.2	-1.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current						Earlier		Comments
	FY17	FY18	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Sugar Sold (in tonne)	840,323	1,042,190	1,153,000	1,205,300	1,279,000	1,170,000	1,286,000	1,172,000	We change our estimates factoring in delay in export subsidy & increase in MSP
Sugar Price (₹ per tonne)	35,900	35,560	29,553	30,341	33,000	34,200	33,700	34,500	
Distillery volume	68,835	78,900	110,890	119,320	176,800	184,600	163,800	179,400	We increase our distillery volume
Distillery price (₹ per KL)	47,098	41,683	41,290	45,701	51,186	54,257	51,256	52,793	
Power Units sold	51.0	56.8	66.4	52.6	53.9	56.8	53.9	56.8	
Price per unit (₹ per units)	4.8	4.8	4.9	3.1	3.1	3.2	3.1	3.2	

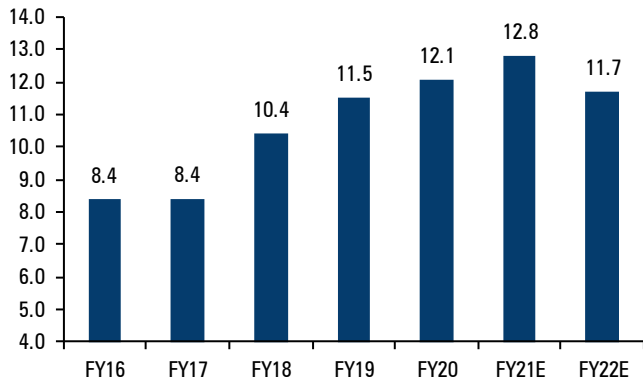
Source: Company, ICICI Direct Research

Conference call Highlight

- Revenue increased 50.5% to ₹ 1289.8 crore led by strong sugar and ethanol sales. Sugar segment sales were up 41.7% to ₹ 1063.4 crore led by volume growth of 40.5% growth. Distillery segment sales witnessed growth of 96.2% to ₹ 262.8 crore led by 83.7% increase in ethanol volumes. The company sold 3.1 lt of sugar & 5.6 crore litre of ethanol/ENA during the quarter
- In distillery segment, the company sold 5.6 crore litre of ethanol/ENA at a blended realisation of ₹ 45.6/litre. Out of total volumes, 2.55 crore litre was B heavy ethanol at realisation of ₹ 54.3/litre, 2.18 crore litre was C heavy ethanol at a realisation of ₹ 43.75 / litre and rest was sold as ENA for the mandatory levy for liquor companies
- In power segment, the company sold 1.32 crore units at a realisation of ₹ 3.2 / unit as against 2.04 crore units at a realisation of ₹ 3.13 /unit in corresponding quarter. With the reduction in power tariffs, the company prefers to sell bagasse instead of generating power in off-season
- The company is holding 2.42 lakh tonnes of sugar valued at ₹ 31.2/kg as on September 2020 against 4.9 lakh tonnes valued at ₹ 31/kg in September 2019
- BCML is planning to divert 65% of the sugarcane towards B heavy ethanol in sugar season 2020-21. We believe the company would be able to sacrifice 1-1.2 lakh tonnes of sugar in the entire season. The company would produce more than 17 crore litre of distillery volumes in FY21E & more than 18 crore litre in FY22E
- The company has announced a capex of 320 KLD distillery at a cost of ₹ 320 crore at its Maizapur plant. This distillery would be fungible for the multiple feedstock (C heavy molasses, B heavy molasses, sugarcane juice, grain etc). BCML would be running the distillery on sugarcane juice during the season & on broken-rice during off-season
- We believe the company would be able to sacrifice additional 70,000 tonnes of sugar and produce 10 crore litre of ethanol. In total, the company would sacrifice 18% of its sugar after this capacity addition. The new capex would be margin accretive. The new distillery would be commissioned by November 2022
- BCML has generated ₹ 1500 crore of cash flow operation in the last six months (given inventory levels are least in September) against ₹ 670 last year. Working capital debt come down from ₹ 1058 crore to zero in last one year. The inventory & working capital debt maximises in March. We believe the company would be able to generate ₹ 1143 crore of cash flow from operations & total debt would come down by ₹ 623 crore by March 2021
- The management believes the government would continue export subsidy for 2020-21 season & it will be announced soon
- The management believes sugar mills can increase ethanol production by (1) Expanding their existing distillery capacities (for C heavy or B heavy) (2) by becoming pollution compliant (increase number of days from 280 to 350) (3) Entail Greenfield expansion for ethanol production through sugarcane juice, grains. The industry would be able to sacrifice 5 million tonnes of sugar in next two to three years
- Sugar production in 2020-21 sugar season would be closer to 31 million tonnes after sacrificing 2.0 million tonnes of sugar for ethanol production. The current industry wise sugar inventory is ~10.7 million tonnes

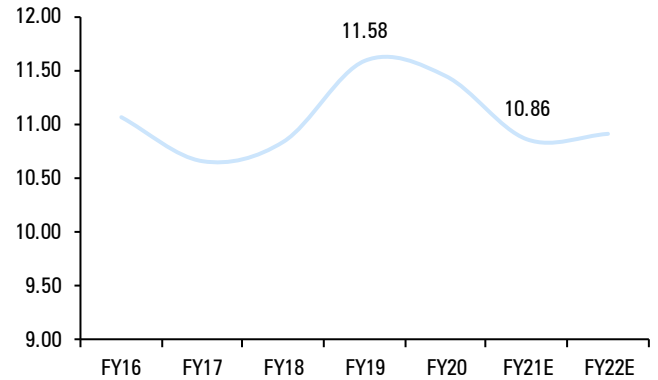
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



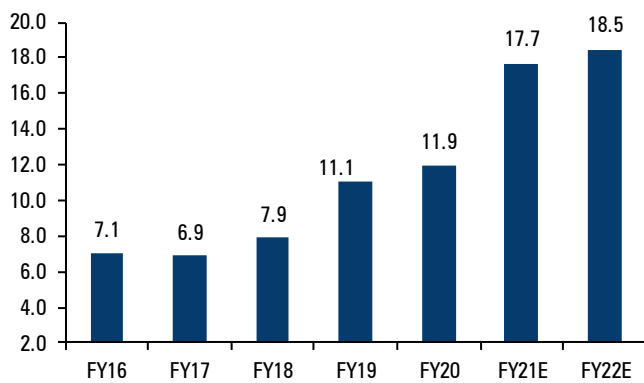
Source: ICICI Direct Research, Company

Exhibit 5: Reduction in sugar recovery rate after higher proportion of sugarcane diversion towards B-heavy ethanol



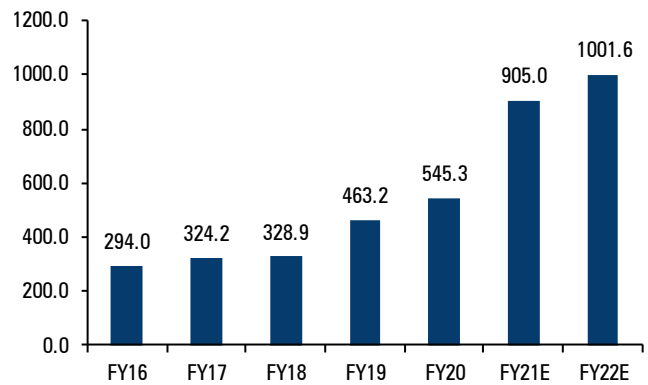
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



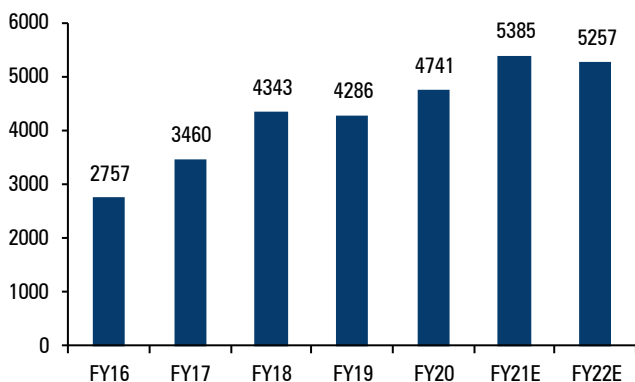
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



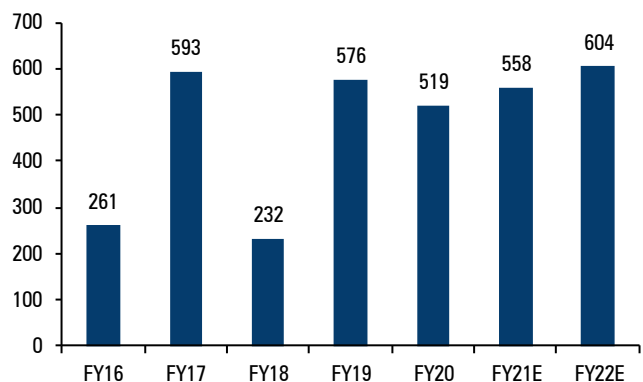
Source: Company, ICICI Direct Research

Exhibit 8: Revenue trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 9: Adjusted PAT trend (₹ crore)



Source: Company, ICICI Direct Research

Exhibit 10: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	4285.8	-1.3	24.9	145.6	6.0	6.9	27.2	16.3
FY20	4741.3	10.6	23.6	-5.2	6.4	6.6	21.5	16.1
FY21E	5384.7	13.6	26.5	12.5	5.7	4.7	20.7	21.2
FY22E	5256.7	-2.4	30.2	13.8	5.0	4.2	20.9	22.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total Operating Income	4,285.8	4,741.3	5,384.7	5,256.7
Growth (%)	-1.3	10.6	13.6	-2.4
Raw Material Expenses	3,057.0	3,501.5	4,041.4	3,839.6
Employee Expenses	230.5	254.0	269.2	288.1
Administrative Expenses	69.0	0.0	0.0	0.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	240.2	303.8	250.4	262.8
Total Operating Expenditure	3,596.7	4,059.3	4,561.0	4,390.5
EBITDA	689.1	682.0	823.6	866.2
Growth (%)	52.6	-1.0	20.8	5.2
Depreciation	95.9	101.4	106.5	115.7
Interest	40.9	64.2	39.0	27.2
Other Income	42.7	43.9	30.7	33.8
PBT	552.3	516.4	678.1	723.2
Total Tax	26.0	48.7	163.0	174.1
PAT	575.8	519.4	557.5	604.0
Adjusted PAT	575.8	519.4	557.5	604.0
Growth (%)	148.5	-9.8	7.3	8.3
Adjusted EPS (₹)	24.9	23.6	26.5	30.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/Loss after Tax	595.0	560.3	557.5	604.0
Add: Depreciation	95.9	101.4	106.5	115.7
Add: Interest	40.9	64.2	0.0	0.0
(Inc)/dec in Current Assets	-925.5	117.1	376.1	71.9
Inc/(dec) in Current Liabilities	-182.7	121.1	102.9	55.4
CF from operating activities	-523.0	849.6	1,143.1	847.0
(Inc)/dec in Investments	0.0	-68.8	-30.0	-25.0
(Inc)/dec in Fixed Assets	-125.7	-241.9	-200.0	-200.0
Others	-33.5	6.0	3.2	0.0
CF from investing activities	-159.2	-304.7	-226.8	-225.0
Issue/(Buy back) of Equity	0.0	-149.3	-180.0	-210.0
Inc/(dec) in loan funds	790.2	-265.8	-623.4	-215.6
Dividend paid & dividend tax	-68.8	-66.3	-101.3	-192.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	-39.5	-64.1	0.0	0.0
CF from financing activities	681.9	-545.5	-904.6	-618.5
Net Cash flow	-0.3	-0.6	11.6	3.6
Opening Cash	2.5	2.1	1.5	13.1
Cash change due to asset held for sa	0.0	0.0	0.0	0.0
Cash with bank	2.8	3.2	0.0	0.0
Closing Cash	4.9	4.7	13.1	16.7

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	22.8	22.0	21.0	20.0
Reserve and Surplus	2,094.9	2,393.7	2,671.0	2,873.1
Total Shareholders funds	2,117.8	2,415.7	2,692.0	2,893.1
Total Debt	1,673.9	1,399.0	775.6	560.0
Long Term Provisions	5.3	6.7	4.7	4.7
Other Non-current Liabilities	115.3	52.5	53.5	54.5
Total Liabilities	3,912.3	3,873.9	3,525.8	3,512.3
Assets				
Gross Block	1,811.0	2,115.5	2,315.5	2,515.5
Less: Acc Depreciation	390.9	492.3	598.9	714.6
Net Block	1,420.0	1,623.2	1,716.7	1,800.9
Capital WIP	45.8	12.4	12.4	12.4
Intangible assets	1.5	0.9	0.9	0.9
Non Current Investments	165.8	238.7	268.7	293.7
Other non-current assets	86.0	15.3	15.3	15.3
Current Assets				
Inventory	2,315.9	2,295.0	1,899.6	1,839.8
Debtors	450.0	244.9	284.2	292.0
Cash	4.9	4.7	13.1	16.7
Loans & Advances	0.0	0.0	0.0	0.0
Other Current Assets	212.2	371.8	351.8	331.8
Current Liabilities				
Creditors	618.5	678.0	648.3	642.9
Provisions	5.7	20.2	20.2	20.2
Other CL	165.6	234.8	368.3	428.2
Net Current Assets	2,193.2	1,983.4	1,511.8	1,389.1
Total Assets	3,912.3	3,873.9	3,525.8	3,512.3

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	25.2	23.6	26.5	30.2
Cash EPS	29.4	28.2	31.6	36.0
BV	92.7	109.8	128.2	144.7
DPS	3.0	3.0	4.8	9.6
Cash Per Share	17.1	22.4	28.5	35.7
Operating Ratios (%)				
EBITDA Margin	16.1	14.4	15.3	16.5
PBT / Net Sales	13.9	11.8	13.2	14.4
PAT Margin	13.4	11.0	10.4	11.5
Inventory days	197.2	176.7	128.8	127.8
Debtor days	38.3	18.9	19.3	20.3
Creditor days	52.7	52.2	43.9	44.6
Return Ratios (%)				
RoE	27.2	21.5	20.7	20.9
RoCE	16.3	16.1	21.2	22.3
Valuation Ratios (x)				
P/E	6.0	6.4	5.7	5.0
EV / EBITDA	6.9	6.6	4.7	4.2
EV / Net Sales	1.1	1.0	0.7	0.7
Market Cap / Sales	0.7	0.7	0.6	0.6
Price to Book Value	1.5	1.3	1.2	1.1
Solvency Ratios				
Debt/EBITDA	2.4	2.1	0.9	0.6
Debt / Equity	0.8	0.6	0.3	0.2
Current Ratio	4.4	3.8	3.2	3.0
Quick Ratio	1.0	0.8	0.8	0.7

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Sugar)

Sector / Company	CMP (₹)	TP (₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B			RoCE (%)		
					FY20	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Balrampur Chini (BALCHI)	150	210	Buy	3,150	23.6	26.5	30.2	6.4	5.7	5.0	6.6	4.7	4.2	1.3	1.2	1.1	16.1	21.2	22.3
Dhampur Sugar (DHASUG)	139	160	Buy	968	32.5	35.9	40.3	4.3	3.9	3.4	7.0	5.0	3.7	0.7	0.6	0.5	10.4	13.7	15.7
Dwarikesh sugar (DWASUG)	28	34	Buy	517	3.9	6.7	7.2	7.1	4.1	3.9	8.4	4.8	4.2	1.1	0.9	0.8	9.0	15.9	16.6
Triveni Engineering (TRIENG)	70	95	Buy	1,909	13.5	16.0	18.3	5.2	4.4	3.8	5.9	4.7	3.9	1.4	1.2	0.9	17.6	20.2	22.0
Dalmia Bharat Sugar (DALSUG)	131	160	Buy	1,068	23.9	26.8	28.4	5.5	4.9	4.6	8.3	7.4	6.1	0.7	0.6	0.6	11.8	11.9	12.1

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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