

Temporary blip of low recovery; long term story intact

Balrampur Chini reported disappointing set of numbers with 10.3% decline in sales & 67% dip in earnings. The de-growth in sales & earnings was mainly due to increase in cost of production as like to like recoveries are lower in current season adversely impacted by weather conditions. Further sugarcane yield was also impacted by red rot disease in some parts of UP. Sugar realisation remained flat with delay in announcement of export subsidy & higher domestic sales quota. However, we believe the impact of these factors is temporary for this season and long term story of sugarcane diversion towards ethanol to balance sugar inventories remained unchanged. Sugar volumes have declined 14.5% to 2.7 lakh tonnes (lt) due to absence of exported in Q3. The base quarter includes 0.9 lt of exports. Distillery volumes were up 18.9% to 2.8 crore litre whereas realisation was up 10.4% to ₹ 46/litre. Out of total distillery volumes, 35% was B heavy ethanol. 51% was C heavy ethanol & rest was ENA. Power revenues were up 2.2% with flat volumes. The decline in operating profit led to similar dip in profitability. PAT de-grew 62.9% to ₹ 26.9 crore. Profit from associates increased from ₹ 3.2 crore to ₹ 5.9 crore.

Higher cost of production due to lower recoveries

Sugar recoveries in current season is expected to be lower by 0.30 bps. This would increase the cost of production by ₹ 1/kg. Further, sugar prices are at the lower end currently due to muted demand in winter months. However, we believe sugar prices would move up from April onwards in anticipation of reduction of sugar inventory due to 6 million tonnes (MT) of exports & lower than expected sugar production. With sugar production at 30 MT and consumption & export at 26.5 MT & 6 MT, respectively, sugar inventories would come down by 2-3 MT by September 2020. We believe sugar prices can inch up to ₹ 34/kg in FY22E. The higher sugar prices would compensate for the increase in cost of production.

Long term story of sugarcane diversion to ethanol remain intact

Sugar industry is going through a transformation given industry is creating distillery capacities to divert sugarcane for ethanol. The current season would see 2.0 MT of sugar sacrifice for ethanol. Further, with capacities coming on stream in the next few years, the industry would see 4-5 MT of sugar sacrifice for ethanol. This would improve distillery profitability & would help maintaining sugar inventories at rational level.

Valuation & Outlook

BCML is the most efficient sugar company with sustainable earnings & strong cash flow generation. It has been giving ~40% payout through dividends, buybacks. The company would continue to generate strong cash-flows. We expect operating cash flow to the tune of ₹ 760 crore & ₹ 920 crore for FY21E & FY22E, respectively. We value stock at 1.3x FY22E P/BV with a revised target price of ₹ 190 (earlier ₹ 210). We maintain our **BUY** rating.



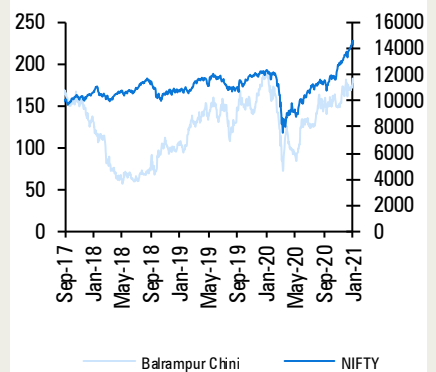
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	3,304.4
Total Debt (FY20)	1,399.0
Cash and Investments (FY20)	4.7
EV	4,698.6
52 week H/L (₹)	188 / 69
Equity capital	21.0
Face value (₹)	1.0

Key Risk

- Lower than expected sugar exports in the country could result in snag inventory reduction efforts
- The continuance of decline in sugar production due to lower yields or lower recoveries can impact sales in FY22E

Price Chart



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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	4342.5	4285.8	4741.3	4920.6	4718.8	-0.2%
EBITDA	451.7	689.1	682.0	713.3	835.3	10.7%
EBITDA Margin %	10.4	16.1	14.4	14.5	17.7	
Net Profit	231.7	575.8	519.4	498.2	595.8	7.1%
Adjusted PAT	231.7	1.5	519.4	498.2	595.8	7.1%
EPS (₹)	10.14	25.21	23.61	23.72	29.79	
P/E	15.5	6.2	6.7	6.6	5.3	
RoNW %	14.3	27.2	21.5	18.9	21.1	
RoCE (%)	14.28	16.26	16.12	17.29	20.55	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	1,072.2	1,195.8	-10.3	1,289.8	-16.9	Net sales witnessed a decline of 10.3% to ₹ 1072.2 crore due to lower sales volumes as company exported 0.9 lakh tonnes of sugar in the base quarter. The company has not exported any quantities in Q3
Other Operating Income	0.0	0.0	N.A.	0.0	N.A.	
Raw Material Expenses	890.3	943.4	-5.6	1,028.7	-13.5	
Employee Expense	73.1	65.9	10.9	64.8	12.9	
Other operating Expenses	72.3	76.2	-5.1	68.6	5.5	
EBITDA	36.4	110.2	-67.0	127.7	-71.5	Operating profit dipped sharply due to higher cost of production given like to like sugar recoveries declined by 30-40 bps with adverse weather conditions.
EBITDA Margin (%)	3.4	9.2	-582 bps	9.9	-651 bps	
Depreciation	28.1	25.0	12.6	28.2	-0.1	
Interest	5.0	7.6	-33.4	9.0	-44.3	
Other Income	11.1	6.8	63.1	4.6	143.4	
PBT	14.4	84.5	-83.0	95.1	-84.9	
Tax Outgo	-6.7	15.2	-143.9	21.2	-131.6	
PAT	26.9	72.5	-62.9	78.3	-65.6	Net profit declined in line with operating profit dip in Q3
Key Metrics						
Sugar sales volume (in lakh tonne)	2.7	3.2	-14.5	3.1	-11.1	Sugar sales volumes declined 14.5% due to absence of sugar exports in Q3
Sugar realisation (₹ per kg)	32.5	32.5	0.0	33.0	-1.6	Domestic sugar realisation was lower by 2.6% but blended realisation was at similar levels
Distillery volumes (in crore litre)	2.8	2.4	18.9	4.7	-40.2	Distillery volumes were higher by 27.7% with commissioning of new distillery in January last year
Distillery realisation (₹ per litre)	46.0	41.7	10.4	45.6	0.9	Distillery realisation was higher by 10.4% but the company sold higher proportion of C-Heavy ethanol during the quarter

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% change	Old	New	% change	
Net sales	5384.7	4920.6	-8.6	5,256.7	4,718.8	-10.2	Lower sugar yield due to red rot & decline in sugar recoveries due to adverse weather conditions impacted sugar production for the company. We are changing our sugar sales volumes estimates downwards
EBITDA	823.6	713.3	-13.4	866.2	835.3	-3.6	The lower sugar volume would impact also impact distillery volumes to that extent
EBITDA Margin (%)	15.3	14.5	-80 bps	16.5	17.7	122 bps	
PAT	557.5	498.2	-10.6	604.0	595.8	-1.4	Lower than expected production & aggressive exports by sugar mills in maharashtra would result in higher sugar prices in FY22
EPS (₹)	26.5	23.7	-10.5	30.2	29.8	-1.4	

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	1,168,200	1,020,000	1,279,000	1,170,000	Lower sugar production in current season would impact sugar sales volume also
Sugar Price (₹ per tonne)	35,900	35,560	29,553	30,341	32,500	34,000	33,000	34,200	We have marginally tweaked sugar prices downwards
Distillery volume	68,835	78,900	110,890	119,320	162,500	177,320	176,800	184,600	The decline in crushing would adversely impact distillery & Power volumes as well
Distillery price (₹ per KL)	47,098	41,683	41,290	45,701	51,226	53,787	51,186	54,256	
Power Units sold	51.0	56.8	66.4	52.6	53.7	53.7	53.9	56.8	
Price per unit (₹ per units)	4.8	4.8	4.9	3.1	3.2	3.3	3.1	3.2	

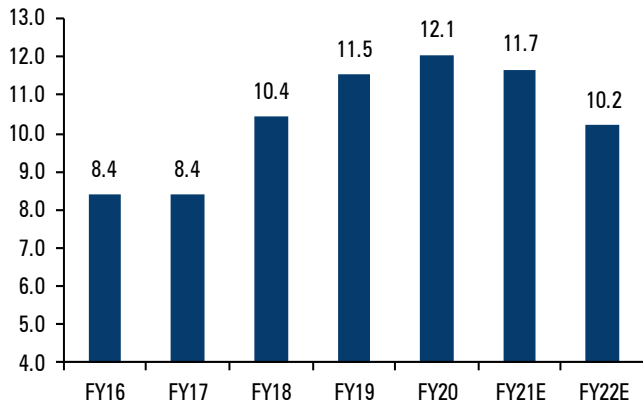
Source: Company, ICICI Direct Research

Conference call Highlight

- BRCM witnessed 10.3% de-growth in revenues on the back of lower sales volume due to absence of exports during the quarter. Further, the sugar recoveries were lower in current sugar season due to adverse weather conditions. The full season may have like to like 30 bps lower sugar recoveries, which would increase the cost by ₹ 1/kg for the company. Further sugar prices are trading at the lower end at ₹ 32-32.5/kg
- Sugar volumes were down 14.5% to 2.7 lakh tonnes due to absence of export in Q3. Sugar realisation was flat at ₹ 32.5/kg
- The company is holding sugar inventory of 2.1 lakh tonnes valued at ₹ 31.5 / kg as against 4.42 lakh tonnes valued at ₹ 31.6/kg in corresponding quarter. The company has sold its export quota & it will not physically export any quantities
- Distillery volumes increased by 18.9% to 2.83 crore litres which includes 1.01 crore litres from B-Heavy ethanol, 1.48 crore litres of C-Heavy ethanol & 0.34 crore litres of ENA. Blended Distillery realisation was up by 10.4% to ₹ 46/litre
- Co-generation revenues were higher by 2.2% to ₹ 109.2 crore with the flat volumes & 2.3% increase in power tariffs
- The company is likely to sell 16-16.5 crore litres of ethanol / ENA in FY21. Distillery volumes can be 17-18 crore in FY22E
- ISMA has revised its sugar production estimate to 30.2 million tonnes due to decline in sugar production in UP mainly on account of dip in sugarcane yield as well as sugar recoveries. With sugar consumption of 26.5 million tonnes, exports of 6 million tonnes, sugar inventories would decline by 2-3 million tonnes to ~8 million tonnes by September 2021. In the anticipation of lower sugar inventories, sugar prices is likely to inch up to ₹ 34/kg by April 2021
- Debt level of the company as on December 2020 is ₹ 585 crore as against ₹ 1237 crore. Entire debt is at the concession interest rate ~4%. The company declared a dividend of ₹ 2.5 / share. The total the pay-out for FY21 has been ₹ 274 crore
- B heavy ethanol & Sugarcane Juice ethanol prices have been revised by 6% & 5% respectively. Further, the government is incentivising capacity addition for distillery through molasses / sugarcane juice / grains. It has also revised its target for 20% blending levels from 2030 to 2025
- The decision on minimum selling price (MSP) for sugar and state advised price (SAP) for sugarcane in UP is still pending. The company is accounting for sugarcane at the last years price & landed cost of sugarcane is ₹340 / quintal in the current sugar season
- Sugar industry has contracted 325 crore litre of ethanol at a country level. This would result in 8.5% blending levels in the ethanol supply year (December to November 2021). The company has contracted for 13 crore litres of ethanol for the sugar season 2020-21 in its first tender & 90% of this would be B heavy ethanol
- BRCM is undertaking capex of ₹ 320 crore for the new distillery of 320 KLD, which would be fungible for the sugarcane juice, molasses and grains. The new capacity would be commissioned by November 2022

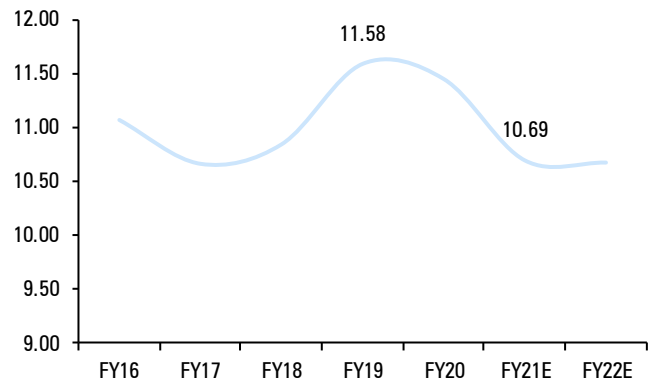
Key Metrics

Exhibit 4: Sugar sales volume (in lakh tonne)



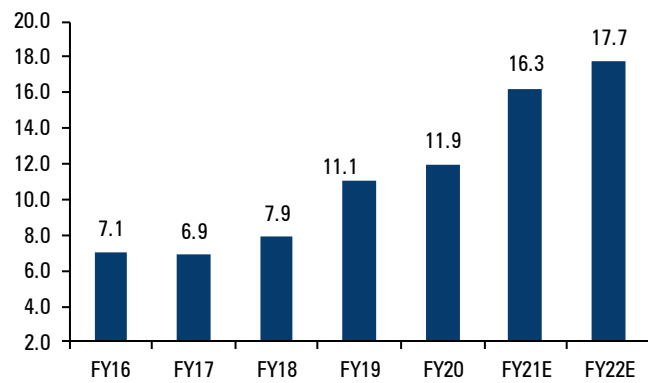
Source: ICICI Direct Research, Company

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



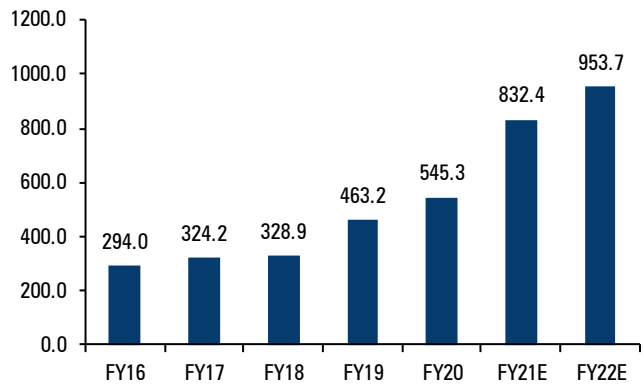
Source: ICICI Direct Research, Company

Exhibit 6: Ethanol volumes (in crore litre)



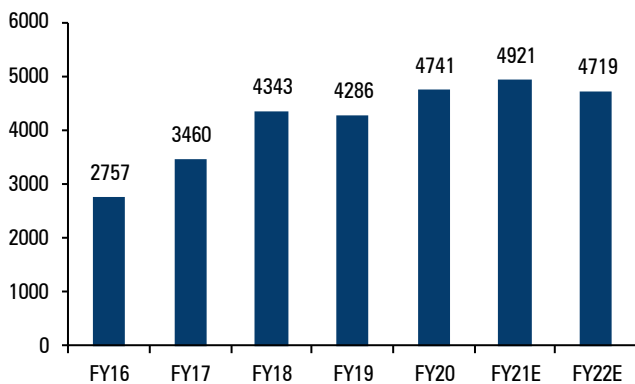
Source: Company, ICICI Direct Research

Exhibit 7: Ethanol sales (₹ crore)



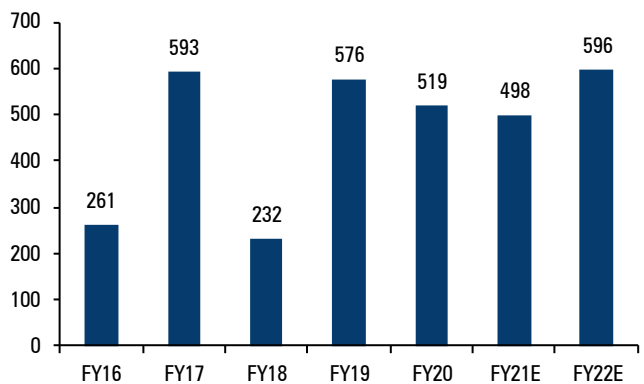
Source: Company, ICICI Direct Research

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	6.2	7.1	27.2	16.3
FY20	4741.3	10.6	23.6	-5.2	6.7	6.9	21.5	16.1
FY21E	4920.6	3.8	23.7	0.5	6.6	6.2	18.9	17.3
FY22E	4718.8	-4.1	29.8	25.6	5.3	5.0	21.1	20.5

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	4,920.6	4,718.8
Growth (%)	-1.3	10.6	3.8	-4.1
Raw Material Expenses	3,057.0	3,501.5	3,648.9	3,334.5
Employee Expenses	230.5	254.0	273.1	289.4
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	285.4	259.5
Total Operating Expenditure	3,596.7	4,059.3	4,207.4	3,883.5
EBITDA	689.1	682.0	713.3	835.3
Growth (%)	52.6	-1.0	4.6	17.1
Depreciation	95.9	101.4	106.5	115.7
Interest	40.9	64.2	46.4	42.1
Other Income	42.7	43.9	56.2	50.6
PBT	552.3	516.4	560.4	677.6
Total Tax	26.0	48.7	141.8	167.5
PAT	575.8	519.4	498.2	595.8
Adjusted PAT	575.8	519.4	498.2	595.8
Growth (%)	148.5	-9.8	-4.1	19.6
Adjusted EPS (₹)	24.9	23.6	23.7	29.8

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	498.2	595.8
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	140.6	276.5
Inc/(dec) in Current Liabilities	-182.7	121.1	16.5	-67.1
CF from operating activities	-523.0	849.6	761.8	920.9
(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	-253.4	-280.0
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	-534.6	-682.9
Net Cash flow	-0.3	-0.6	0.3	13.0
Opening Cash	2.5	2.1	1.5	1.8
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	1.8	14.9

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	2,611.7	2,805.6
Total Shareholders funds	2,117.8	2,415.7	2,632.7	2,825.6
Total Debt	1,673.9	1,399.0	1,145.6	865.6
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	3,836.5	3,750.4
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	2,159.6	1,900.6
Debtors	450.0	244.9	259.7	262.2
Cash	4.9	4.7	1.8	14.9
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	664.1	572.6
Provisions	5.7	20.2	20.2	20.2
Other CL	165.6	234.8	266.1	289.5
Net Current Assets	2,193.2	1,983.4	1,822.5	1,627.2
Total Assets	3,912.3	3,873.9	3,836.5	3,750.4

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	25.2	23.6	23.7	29.8
Cash EPS	29.4	28.2	28.8	35.6
BV	92.7	109.8	125.4	141.3
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	14.5	17.7
PBT / Net Sales	13.9	11.8	12.5	15.4
PAT Margin	13.4	11.0	10.1	12.6
Inventory days	197.2	176.7	160.2	147.0
Debtor days	38.3	18.9	19.3	20.3
Creditor days	52.7	52.2	49.3	44.3
Return Ratios (%)				
RoE	27.2	21.5	18.9	21.1
RoCE	16.3	16.1	17.3	20.5
Valuation Ratios (x)				
P/E	6.2	6.7	6.6	5.3
EV / EBITDA	7.1	6.9	6.2	5.0
EV / Net Sales	1.1	1.0	0.9	0.9
Market Cap / Sales	0.8	0.7	0.7	0.7
Price to Book Value	1.6	1.4	1.3	1.2
Solvency Ratios				
Debt/EBITDA	2.4	2.1	1.6	1.0
Debt / Equity	0.8	0.6	0.4	0.3
Current Ratio	4.4	3.8	3.9	3.7
Quick Ratio	1.0	0.8	0.9	0.9

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	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Avadh Sugar (AVASUG)	195	195	Hold	362	44.3	55.2	60.5	4.4	3.5	3.2	7.0	5.8	4.7	0.6	0.5	0.4	10.6	12.3	13.3
Balrampur Chini (BALCHI)	157	190	Buy	3,304	23.6	23.7	29.8	6.7	6.6	5.3	6.9	6.2	5.0	1.4	1.3	1.2	16.1	17.3	20.5
Dhampur Sugar (DHASUG)	167	175	Buy	950	32.5	38.6	43.3	5.2	4.3	3.9	7.0	4.3	3.3	0.7	0.6	0.5	10.4	15.4	17.4
Dwarikesh sugar (DZWASUG)	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)	72	90	Buy	1,617	13.5	15.2	17.3	5.3	4.8	4.2	5.4	4.4	3.5	1.2	1.1	0.9	17.6	20.1	22.9
Dalmia Bharat Sugar (DALSUG)	139	180	Buy	1,060	23.9	33.4	32.5	5.8	4.2	4.3	6.4	4.2	4.0	0.7	0.6	0.5	11.8	15.4	14.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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