

**Balrampur Chini Mills Ltd:** BCML Posted weak set of numbers in Q3. Revenue came in at Rs.10,722mn a 10.3% contraction from the same period last year, EBITDA was down 67% Y-o-Y at Rs.364mn with margins falling by more than 500Bps to 3.4%. PAT declined by 69% Y-o-Y to Rs210mn with margins contracting by ~380Bps to 2%. Decline in revenue was primarily due to lower sales volumes, the company has sold its MAEQ entitlement and the subsequent lack of exports during the period led to volumes declining by 14.5%, domestic sugar realization was stable at around 32.5Rs/Kg. The alcohol segment showed positive growth as expected, with volumes rising by 19% to 2.8cr lit with blended realization of ~46Rs/Lit. Co-generation segment continues to struggle on the back of low realizations, exported volume was at 11.31Cr units with realization at ~3.2Rs/unit.

### Higher cost of production led to margin contraction

U.P is witnessing lower sugarcane yields due to spread of disease and adverse weather conditions, advance estimates by ISMA put expected sugar production at 10.5Mn tons for 20-21 SS as against 12.4Mn tons in SS 19-20. The company's recovery rate for the quarter was lower at around 10.3% due to higher diversion for ethanol. The above factors and lower volumes contributed to severe contraction in EBITDA margins, we believe this to be a one time event and margins should normalize for Q4.

### Outlook for sugar prices is positive

ISMA estimates sugar production for SS 20-21 to be around 30.2Mn tons. Domestic consumption is predicted to be around 26Mn tons along with 6mn tons of export already approved. Opening balance of sugar stocks is at 10.7Mn tons, with the above data we can estimate closing stocks to reduce to around 9Mn tons. This should aid the domestic sugar prices and lead to better cash flows for the mills. BCML management remains confident in regards to domestic realizations and expect growth from March 2021. we believe sugar prices can reasonably rise to Rs.34/kg bringing the average realization for the year to around Rs.33/kg.

### Valuation and outlook

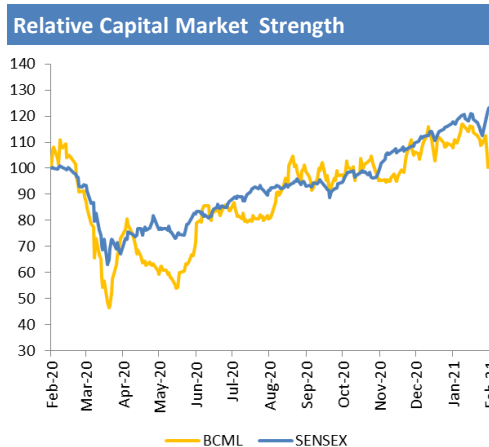
We believe that despite weaker than expected numbers in Q3, the long term outlook for Balrampur Chini remains largely unchanged. Improving sugar realizations aided by expected rise in MSP. New ethanol capacity is expected to come online by sept-22 (FY23) and increasing diversion to ethanol will assist the company in keeping inventories low and cash flows consistent. The government has announced its plans to achieve 20% ethanol blending in fuels by 2025 reducing the timeline by 5 years. Ethanol is expected to be a key driver for the sugar industry, BCML is well placed to take advantage of such tailwinds. We value BCML at 7x FY22 P/E to arrive at a target price of Rs.183 and maintain our "BUY" rating.

### Key risks

- Further delay in increasing MSP by the government, which will affect short term cash flows.
- Rise in SAP for U.P sugarcane, this would cause further stress to margins.

| Rating Matrix       |             |
|---------------------|-------------|
| <b>CMP</b>          | Rs.159.85   |
| <b>Rating</b>       | <b>BUY</b>  |
| <b>Target price</b> | Rs.183      |
| <b>Upside</b>       | 14.5%       |
| <b>52 week H/L</b>  | Rs.188 / 69 |
| <b>Face value</b>   | Rs.1        |
| <b>Mar. Cap.</b>    | Rs.33,569Mn |
| <b>Category</b>     | Small cap   |
| <b>Sector</b>       | Sugar       |

| Shareholding pattern |        |        |        |        |
|----------------------|--------|--------|--------|--------|
|                      | Mar-20 | Jun-20 | Sep-20 | Dec-20 |
| <b>Promoters</b>     | 41.10% | 41.10% | 41.21% | 41.21% |
| <b>FIIIs</b>         | 22.64% | 19.04% | 20.26% | 20.06% |
| <b>DIIs</b>          | 12.75% | 12.39% | 11.39% | 13.99% |
| <b>Non Inst.</b>     | 23.51% | 27.47% | 27.14% | 24.73% |



| Key Financials Consolidated (Rs.bn) |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|
| Particulars                         | FY19  | FY20  | FY21E | FY22E |
| Operating income                    | 42.9  | 47.4  | 52.3  | 51.4  |
| EBITDA                              | 6.9   | 6.8   | 6.3   | 7.6   |
| EBITDA Margin                       | 16.1% | 14.4% | 12.1% | 14.9% |
| PAT                                 | 5.9   | 5.6   | 4.4   | 5.5   |
| NPM (%)                             | 13.3% | 10.8% | 8.4%  | 10.7% |
| EPS (Rs)                            | 25.2  | 23.6  | 21.1  | 26.1  |
| RoE (%)                             | 26.9% | 21.2% | 16.8% | 18.8% |
| P/S (x)                             | 0.8   | 0.5   | 0.6   | 0.7   |
| P/E (x)                             | 5.8   | 4.8   | 7.6   | 6.1   |
| P/BV (x)                            | 1.5   | 1.0   | 1.3   | 1.2   |

### Balrampur Chini Q3 snapshot

| Particulars (Rs.Mn)    | Q3 FY21 | Q3 FY20 | Y-o-Y %   | Q2 FY21 | Q-o-Q %   |
|------------------------|---------|---------|-----------|---------|-----------|
| Operating revenue      | 10,722  | 11,958  | -10.3%    | 12,898  | -16.9%    |
| Cost of goods consumed | 8,918   | 9,007   | -1.0%     | 542     |           |
| changes in inventory   | (15)    | 427     | -103.5%   | 9,745   |           |
| Employee expenses      | 731     | 762     | -4.1%     | 648     | 12.9%     |
| Other expenses         | 723     | 659     | 9.7%      | 686     | 5.5%      |
| EBITDA                 | 364     | 1,102   | -67.0%    | 1,277   | -71.5%    |
| Depreciation           | 281     | 250     | 12.6%     | 282     | -0.1%     |
| EBIT                   | 83      | 852     | -90.3%    | 996     | -91.7%    |
| Finance cost           | 50      | 76      | -33.4%    | 90      | -44.3%    |
| Other income           | 111     | 68      | 63.0%     | 46      | 143.4%    |
| PBT                    | 144     | 845     | -83.0%    | 951     | -84.9%    |
| Tax                    | (67)    | 152     |           | 212     |           |
| PAT                    | 210     | 693     | -69.7%    | 740     | -71.6%    |
| EBITDA margin %        | 3.4%    | 9.2%    | (582) Bps | 9.9%    | (651) Bps |
| PAT margin %           | 2.0%    | 5.8%    | (383) Bps | 5.7%    | (377) bps |

### Balrampur Chini Segmental Performance

|                           | FY18  | FY19  | FY20  | FY21E | FY22E |
|---------------------------|-------|-------|-------|-------|-------|
| Sugar sales (Mn Tonnes)   | 1.03  | 1.15  | 1.21  | 1.25  | 1.16  |
| Avg realization (Rs/kg)   | 35.56 | 29.55 | 30.34 | 33.5  | 35    |
| Alcohol sales (Cr lit)    | 8.07  | 11.09 | 11.93 | 16.36 | 17.5  |
| Avg realization (Rs/lit)  | 39.15 | 41.29 | 44.69 | 49    | 53    |
| Power exported (Cr units) | 56.8  | 66.38 | 52.61 | 52    | 60    |
| Avg realization (Rs/unit) | 4.78  | 4.94  | 3.06  | 3.2   | 4     |

### Con-call highlights:

- ISMA early estimates put sugar production at 30.2mn tons due to fall in production in UP on account of lower cane yield and sugar recovery rate.
- Domestic sugar consumption is expected at 26mn tons, along with exports of 6mn tons. Closing inventory is expected to decline to around 9 million tonnes by the end of the current sugar season.
- Management is confident on sugar prices and believe it will rise to Rs.34/kg after march-21
- Sugar sales volumes were at 0.27mn tons down 14.5% Y-o-Y as the company has sold its MAEQ entitlement, management plans to offload the extra stock in the domestic market.
- Sugar realization stood at Rs.32.5/kg, management remains confident in expecting this to rise (~Rs.34) as inventories continue to fall.
- Distillery volumes were at 2.8Cr lit, up 19% Y-o-Y. Blended realization was around Rs.46/lit.
- Management expects to do around 16.5Cr lit of alcohol sales for FY21, and 17-18 Cr lit for FY23
- B-ethanol made up around 35% of sales, while C-ethanol constituted around 52% of total alcohol sales.
- Management expects the new 320 Kl/day distillery capacity to come online at the end of sugar season 21-22 (Sept-22). This new unit will utilize the direct sugarcane to ethanol process.
- The company generated 20.2Cr units of power in Q3 of which 11.3Cr units were exported. Average realization per unit was at ~Rs.3.2.
- Current inventory level is at 0.21mn tons down from 0.44mn tons. Currently inventory is valued at Rs.31.5.
- Management has indicated their cost of production has increased to ~Rs.31/kg without considering any further price rises for sugarcane.
- Global prices are pegged at Rs.29-30/kg without considering the export subsidy approved by the government.

### Choice's Rating Rationale

The price target for a large cap stock represents the value the analyst expects the stock to reach over next 12 months. For a stock to be classified as Outperform (Buy), the expected return must exceed the local risk free return by at least 5% over the next 12 months. For a stock to be classified as Underperform (Reduce, Sell), the stock return must be below the local risk free return by at least 5% over the next 12 months. Stocks between these bands are classified as Neutral (Hold).

|        |                                   |
|--------|-----------------------------------|
| BUY    | Absolute Return >15%              |
| Hold   | Absolute Return Between 0-15%     |
| Reduce | Absolute Return 0 To Negative 10% |
| Sell   | Absolute Return > Negative 10%    |

### Equity Research Team

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