

RESULTS REVIEW

Balrampur Chini Mills Ltd. (BCML)

Rs. 63 | Sell

Q2FY07 results update

Analyst

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Nifty: 4179; Sensex: 14229

Key Stock Data

Sector	Sugar
Bloomberg/Reuters	BRCM@IN/BACH.BO
Shares o/s (m)	248.2
Market cap (Rs m)	15,674
Market cap (US\$ m)	383
3-m daily average vol.	12,64,869

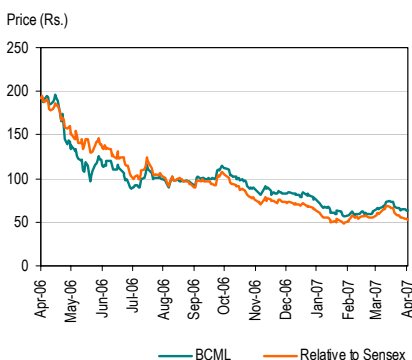
Price Performance

52-week high/low	Rs200/54
	-1m -3m -12m
Absolute (%)	(1.9) (16.6) (67.1)
Rel to Sensex (%)	(10.3) (16.3) (86.3)

Shareholding Pattern (%)

Promoters	31.82
FII/IRIs/OCBs/GDR	21.86
MFs/Banks/FIs	11.83
Non Promoter Corporate	7.70
Public & Others	26.79

Stock vs Relative to Sensex



Source: Capitaline

Highlights

Q2FY07 sales at Rs.3,969m is up by 19% YoY but the drop in operating margins by 22 percentage points YoY at 14% pushes down the PAT by 75% YoY at Rs.200m. Net profit margin declined significantly by 19 percentage points YoY due to increase in depreciation and interest expenses.

■ Q2FY07, Sugar contributes 82% to topline

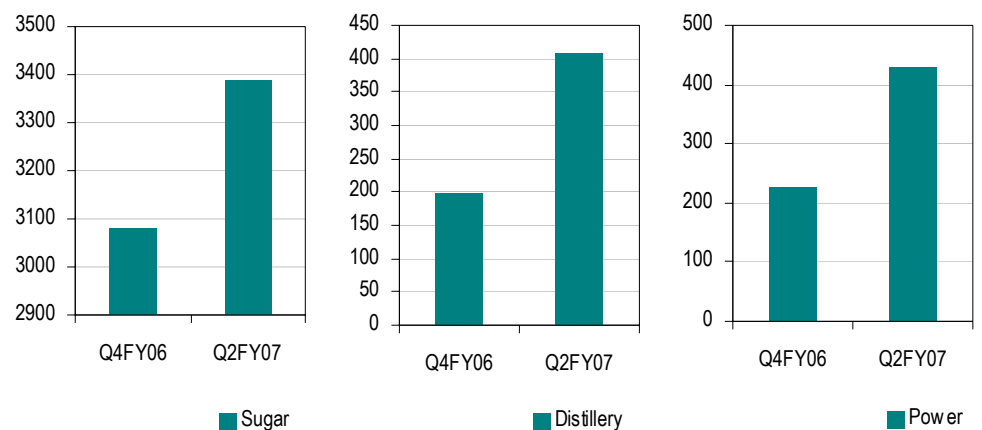
In Q2FY07, sales at Rs.3,969m is up by 19% YoY. Revenues from sugar segment reported an increase of 10% on back of enhanced capacity leading to higher volumes. The total sugar production increased by 40% YoY to 48.8 lac quintal with average recovery of 10.4%. Realisation at Rs.14,731/MT is down by 20% YoY compared to Rs.18,384/MT in Q4FY06. Mankapur unit ramped up the total sugar production by manufacturing 7.1 lac quintals of sugar.

Distillery segment contributed Rs.409m to the topline presenting 108% YoY growth. This is on account of higher volumes and better realizations aided by increased off take of ethanol by oil marketing companies. The performance in this segment is expected to improve further in Q3FY07, on back of commencement of distillery facility of 100 KLPD at Mankapur. Production increased by 66% YoY to 18,446 KL to support the increasing demand of distillery products.

Cogeneration segment reported 91% YoY increase in revenues to Rs.430m on back of increase in capacity leading to higher production. BCML produced 2,201 lac units of power in Q2FY07 compared to 1,121 lac units in Q4FY06, presenting 96% YoY growth in production.

Figure 1: Segment-wise performance review

(Rs. m)



Company reports; IDBI Capital Market Services

■ Margins hit

In Q2FY07, EBIDTA margins at 14% have declined significantly due to lower realisation in sugar coupled with increased cane cost. Interest at Rs.150m is up by 126% YoY. Depreciation at Rs.194 is up by 68% YoY due to the ongoing expansion activity. Increase in depreciation and interest cost has led to decline in net profit margin by 19 percentage points YoY to 5%.

■ H1FY07, PAT down by 67% YoY

The scenario in H1FY07 is no better. Revenues at Rs.7,340m is up by 19% YoY on back of increased volumes and higher contribution from distillery and cogeneration segments. But EBIDTA margins at 15% declined by 14 percentage points YoY. Declining margins coupled with increase in interest cost by 118% YoY and depreciation cost by 68% YoY lead to decline in net profit margin by 14 percentage points YoY to 5%.

Valuations

BCML is hit by the sugar cycle reversal. In a scenario of increasing cane cost and reducing sugar prices caused by oversupply at domestic and global level, we do not foresee the revival of sugar cycle in near future. The current market price discounts the revised FY07E EPS of Rs.3.5 by 18.1x and we recommend 'Sell'.

Table 1: Financial snapshot

(Rs. m)

Year-end: Sept.	Q2FY07	Q2FY06	(% Var)	H1FY07 [#]	H1FY06	(% Var)	FY07E
Net sales	3,969	3,323	19	7,340	6,190	19	14,973
Other Income	22	22	3	39	28	39	60
Operating Profit	581	1,205	(52)	1,113	1,778	(37)	2,006
OPM (%)	14	36	(2,154)*	15	28	(1,364)*	13*
Interest	150	66	126	205	94	118	335
Depreciation	194	116	68	365	217	68	630
Tax	37	230	(84)	151	274	(45)	182
PAT	200	794	(75)	392	1,193	(67)	860
NPM (%)	5	24	(1,887)*	5	19	(1,393)*	6*
EPS (Rs.)	0.8	3.3		1.6	5.0		3.5

Note: * - bps; # - Includes Q4FY06 and Q3FY06

Source: Company reports; IDBI Capital Market Services

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