

STOCK DATA

Market Cap	Rs25bn.
Book Value per share	Rs35
Eq Shares O/S (FV Rs.1)	255.5mn.
Median Vol (12 mths)	5.5 mn (BSE+NSE)
52 Week High/Low	Rs128 /50
Bloomberg Code	BRCM@IN
Reuters Code	BACH.BO

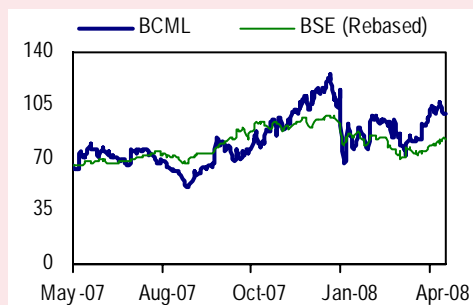
SHAREHOLDING PATTERN (%)

Qtr. Ended	Sep-07	Dec-07	Mar-08
Promoters	31.8	33.8	35.7
MFs/FIs	11.1	12.6	19.2
FIIIs	27.2	32.3	24.5
PCBs	8.8	6.3	5.2
Indian Public	21.1	15.0	15.4

STOCK PERFORMANCE (%)

	1M	3M	12M
Absolute	6.5	15.3	48.5
Relative	(3.3)	15.5	20.9

STOCK PRICE PERFORMANCE



KEY HIGHLIGHTS

Balrampur Chini Mills Ltd.'s (BCML) net sales for Q2FY08 were down 22% YoY to Rs3.1bn, mainly due to lower sugar volumes and realisations. However, 61% surge in cogen revenues to Rs947mn stemmed the decline.

Revenues of sugar division slumped 30% to Rs2.5bn as a result of 34% drop in volumes to 134.7k mt and a marginal 1% decline in realisations to Rs14.5k/mt. Growth in cogen division's revenues was primarily on back of commissioning of capacities at Kumbhi (10 MW), Gularia (20 MW) and Rauzagaon (16 MW).

● **OPM expands to 42.7%**

Lower cane price at Rs110/quintal against Rs125/quintal coupled with better performance of cogen division helped margins expand by 28.6% to 42.7%. Net profits surged by 3.3x to Rs657mn on back of lower proportionate increase in capital charges.

● **Preferential issue infuses Rs672mn**

Promoters of the company infused Rs672mn through issue of 7.3 mn shares @ Rs92/share on a preferential basis. Promoters have also been allotted 10 mn warrants @ Rs92/share, which upon conversion would raise its fully diluted equity to Rs265mn.

● **Supreme court fixes interim cane price for SS 06-07**

Supreme court has fixed an interim cane price of Rs118/quintal pertaining to SS 06-07 for clearing the cane arrears. BCML has accounted its cane costs at Rs125/quintal and will benefit to the tune of Rs210mn if the price is finalised at Rs118/quintal.

VALUATIONS AND RECOMMENDATION

We have a positive outlook for the sugar sector as we expect sugar prices to firm up over the next few quarters on back of lower production estimates, stable growth in consumption and exports. BCML, with its scale of operations, efficiency levels and integrated operations should capitalise on the positive outlook for the sector. However, considering the concerns relating to increase in cane costs for SS 08-09 and possible government intervention to control sugar price, we downgrade our recommendation to 'HOLD' until clarity emerges on the same.

KEY FINANCIALS (STANDALONE)

Rs mn	Quarter Ended			Yr Ended (Sept)				
	Sep-07	Dec-07	Mar-08	2005	2006	2007	2008E	2009E
Net Sales	2,925	4,275	3,080	8,127	18,984	13,917	16,032	15,854
YoY Gr. (%)	(24.7)	26.8	(22.4)	16.2	55.7	10.0	15.2	(1.1)
Op Profits	(15)	332	1,314	2,394	4,597	891	2,509	2,997
Op. Marg.(%)	(0.5)	7.8	42.7	29.5	24.2	6.4	15.7	18.9
Net Profits	(338)	(1)	657	1,250	2,916	(419)	777	1,153
Eq. Capital	248	248	256	232	248	248	265	265

Note: Year Ending changed from FY06 onwards to September

KEY RATIOS

	Yr Ended (Sept)				
	2005	2006	2007	2008E	2009E
Dil. EPS (Rs)	4.7	7.3	(1.6)	2.9	4.3
ROCE (%)	22.1	23.8	1.2	7.4	8.6
RONW (%)	32.6	27.8	(4.7)	7.9	10.0
P/E (x)	18.7	12.9	(59.9)	34.5	23.2
EV/Sales (x)	3.3	2.4	1.8	2.3	2.2
EV/EBIDT (x)	11.0	9.8	25.3	14.4	11.4

PERFORMANCE OVERVIEW

Lower sugar volumes and realisations impact revenues...

BCML's Q2FY08 results were above our expectation on back of better performance of sugar and cogen division.

Sugar Division: A 34% decrease in sugar volumes to 134.7k mt coupled with a 1% fall in realisations to Rs14.5k/mt resulted in the division's revenues declining by 30% to Rs2.5bn. At the PBIT level, the company posted profits of Rs439mn against a loss of Rs7mn in Q2FY07 as a result of lower cane costs at Rs110/quintal vis-a-vis Rs125/quintal.

During the quarter and half year, it has accounted Rs240mn and Rs340mn as revenue subsidy under the Sugar Promotion Policy, 2004. However, no accounting has been done for the provisioning of 10% capital subsidy.

Despite capacity expansion at Kumbhi and Gularia, BCML is expected to crush ~8.2 mn mt of cane in SS 07-08 against 9.2 mn mt in SS 06-07 as a result of lower cane yields and a shorter crushing season. For SS 08-09, decrease in cane acreage due to a shift to other crops like wheat, is expected to further lower the crushing by 5-7%.

Cogen revenues surge on back of capacity additions at Kumbhi, Gularia and Rauzagaon...

Cogen Division: The division reported a healthy revenue growth of 61% to Rs947mn, led by 50% (to 218 mn units) increase in power sales to the U.P. grid. Higher unit sales were mainly on back of commissioning of capacities at Kumbhi (10 MW), Gularia (20 MW) and Rauzagaon (16 MW). PBIT margins expanded by 470 bps to 51.8% resulting in PBIT rising by 77% to Rs491mn.

Currently, its total surplus cogen capacity stands at ~126 MW, which will operate for 270-280 days during the current season. The current operating duration is expected to be shorter by 35-45 days on account of lower availability of bagasse owing to reduction in cane crush.

Distillery Division: The division posted a marginal growth of 9% in revenues to Rs498mn in Q2FY08. Distillery volumes (excluding ethanol) rose by 26% to 19.8k KL whereas ethanol volumes accelerated by 140% to 4.6k KL. Volume growth was mainly due to commissioning of 100 KLPD distillery at Mankapur in Q3FY07. However, margins of the division were under pressure and dipped by 320 bps to 34.2% on account of subdued realisations of industrial alcohol. Average realisations (excluding ethanol) were lower by 24% to Rs16.8k / KL whereas ethanol realisations were stable at Rs22k / KL.

The operating duration for the distillery is expected to remain at the same level of ~310 days as it has sufficient molasses availability. However, outside sales of molasses will reduce as the surplus molasses will be utilised captively.

BCML's seasonwise capacity details

	SS 05-06	SS 06-07*	SS 07-08
Sugar (TCD)			
Balrampur	12,000	12,000	12,000
Tulsipur	7,000	7,000	7,000
Babhnan	9,000	9,000	10,000
Haidergarh	5,000	5,000	5,000
Akbarpur	7,000	7,000	7,500
Rauzagaon	7,500	7,500	7,500
Mankapur	-	7,000	8,000
Kumbhi	-	-	8,000
Gularia	-	-	8,000
Total	47,500	54,500	73,000
Distillery (KPLD)			
Balrampur	100	160	160
Babhnan	60	60	60
Mankapur	-	100	100
Total	160	320	320
Surplus Power (MW)	63	83	126

Note: Does not includes capacities at Kumbhi as it was not operational for the whole season

Amount raised from preferential issue would meet the working capital requirements...

Capital charges jumped 56% to Rs536mn on back of capacity expansion and higher working capital requirements. However, interest charges should drop for the next two quarters as inventory liquidation will lower its working capital requirement. As on Mar'08, the company is carrying a debt of Rs16.9bn, which also includes Rs10.5bn of term loans. To strengthen the balance sheet, BCML has also issued 10 mn warrants and 7.3 mn preferential shares @ Rs92/share to the promoters. Promoters have converted 7.3 mn shares and conversion of 10 mn warrants would enhance its equity of Rs265mn.

BCML has completed the expansion of cane crushing capacity to 73,000 TCD, cogen capacity to 181 MW (126 MW saleable) and distillery capacity to 320 KLPD. Indo-Gulf Industries Ltd., where BCML holds ~54%, also has a 3,000 TCD capacity.

OUR VIEW

Sugar

With steady growth in domestic sugar consumption, healthy exports and decrease in sugar production estimates at ~26 mn mt and 22-23 mn mt in SS 07-08 and SS 08-09, we expect sugar prices to remain firm for the next few quarters. However, prices should stabilise at the current Rs15-15.2/kg for the next 3-4 months as the government has allowed the mills to sell the 2 mn mt of buffer stock in the open market from May 1, 2008. The reimbursement mechanism for the second tranche of 3 mn mt buffer stock will be dismantled on July 31, 2008 and it remains to be seen whether this stock is allowed to be sold in the open market, which will be over and above the normal monthly releases. However, with estimated production of 22.5-23 mn mt and consumption of ~22.5-23 mn mt in SS 07-08, the situation tends to favour the demand and this augurs well for upswing in sugar prices from current levels.

Sugar prices may stabilise at Rs15-15.2/kg for the next 3-4 months...

On the ethanol blending front, the offtake has still not picked up with current blending in the range of 3-3.5% on a country wide basis against the mandatory blending of 5%. The key reasons for lower ethanol offtake are high state levies and stable demand for industrial and potable alcohol corresponding with lower molasses production. Also, with cane production in the next season expected to fall by 10-15%, we believe that 10% blending programme from Sep'08 may face some hindrances.

OUTLOOK

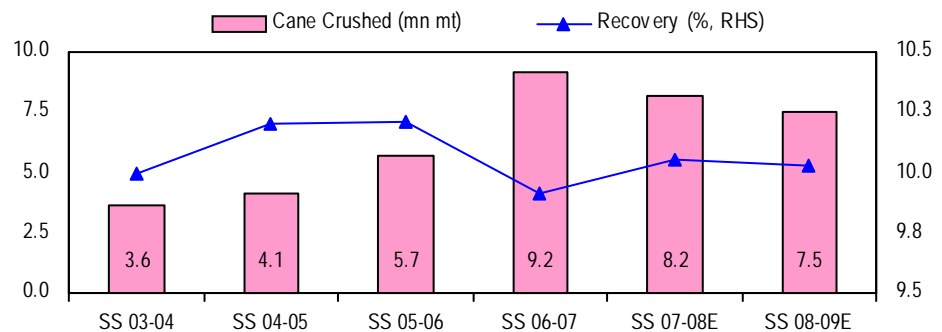
BCML revenues for FY08 are expected to accelerate by 15% to Rs16bn, aided by increasing revenues of all three divisions. Revenues from sugar sales should grow 15% to Rs13.3bn as we expect the company to liquidate its inventory. Revenues in FY09 should decline marginally by 1% as benefits from higher sugar realisations would be offset by lower sugar volumes.

We expect net sales and profits of Rs15.9bn and Rs1.2bn in FY09...

Operating margins should expand by 930 bps to 15.7% in FY08 on back of growing contribution from cogen and distillery coupled with reduction in cane costs. In FY09, we expect a further improvement in margins to 18.9% on back of 6% upswing in sugar realisations to Rs15.5k/mt.

Capital charges to rise 24% and 3% in FY08 and FY09 to Rs1.67bn and Rs1.72bn. Proceeds from the issue of preference shares and warrants coupled with better sugar realisations should help BCML lower its working capital requirement. We expect the company to post profits of Rs777mn and Rs1.2bn in FY08 and FY09 respectively.

BCML's yearly crushing details



Source: Company, PINC Research

VALUATIONS

At the CMP of Rs101, the stock trades at a P/E of 23.2X, discounting its FY09 estimated EPS of Rs4.3. It trades at an EV/Sales and EV/EBIDT of 2.2x and 11.4x its FY09E.

We have a positive outlook for the sugar sector as we expect sugar prices to firm up over the next few quarters on back of lower production estimates, stable growth in consumption and exports.

BCML, with its scale of operations, efficiency levels and integrated operations should capitalise on the positive outlook for the sector. However, considering the concerns relating to increase in cane costs for SS 08-09 and possible government intervention to control sugar price, we downgrade our recommendation to 'HOLD' until clarity emerges on the same.

We downgrade our recommendation to 'HOLD'...

KEY ASSUMPTIONS

- 1) Sugarcane crushing of 7.5 mn mt and cane cost of Rs110/quintal in FY09
- 2) Sugar prices of Rs14.6/kg in FY08 and Rs15.5/kg in FY09

Key Triggers

- 1) Any upward revision in levy sugar rates will help reduce losses of sugar mills.
- 2) Reinstating the earlier sugar incentive scheme or announcement of a new policy in lieu of replacing the earlier one will benefit companies like BCML, which were eligible to receive subsidies / incentives under the original scheme.

Risks & Concerns

- 1) Increase in cane costs for the next season might downward revise our estimates.
- 2) Intervention by the government to control sugar prices to moderate inflation may adversely impact our estimates.
- 3) Any decrease in crushing for SS 08-09 from projected 7.5 mn mt will further lower our estimates as it will subsequently reduce the operating duration for cogen plants.

BCML's FY09 PAT sensitivity to sugar prices (Rs mn)					
Cane Price (Rs/quintal)	Sugar Prices (Rs/mt)				
	14,500	15,000	15,500	16,000	16,500
90	1,801	2,119	2,436	2,754	3,071
110	518	836	1,153	1,471	1,788
125	(380)	(62)	255	573	890

Notes: 1) Recovery rate assumed at 10%

2) Cane price is calculated at factory gate

3) Cane Price of Rs90 is based on SMP

4) Cane Price of Rs110 is based on Allahabad High Court order

5) Cane Price of Rs125 is based on SAP

Source: PINC Research

Company description

Balrampur Chini Mills Limited (BCML) is one of the largest integrated sugar manufacturers in India operating with a standalone sugarcane crushing capacity of 73,000 TCD, distillery capacity of 320 KLPD and cogeneration capacity of 126 MW (saleable).

Financial Results for the quarter & half year ended 31 March 2008

Particulars (Rs Mn)	Quarter Ended			Half Year Ended			Year Ended
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %	30/09/07
Net Sales	3,080	3,969	(22.4)	7,355	7,340	0.2	13,917
Total Expenditure	1,766	3,410	(48.2)	5,709	6,266	(8.9)	13,027
(Inc.) / Dec. Stock-in-trade	(5,866)	(3,838)		(4,786)	(4,862)		(2,136)
Materials Consumed	6,716	6,456	(67.5)	8,983	9,748	(14.1)	12,810
Staff Cost	252	217	16.1	448	387	15.7	753
Other expenditure	665	575	15.6	1,064	993	7.2	1,600
Operating profit	1,314	559	135.0	1,646	1,074	53.2	891
Other Income	31	22	41.6	82	39	110.9	102
PBIDT	1,345	581	131.5	1,728	1,113	55.2	993
Interest	231	150	53.7	364	205	77.4	544
Depreciation	306	194	57.5	553	365	51.8	802
PBT & extra-ordinary items	809	237	241.3	810	543	49.2	(354)
Provision for current tax	152	37		154	151		65
Net Profit	657	200	228.7	656	391	67.5	(419)
Equity Capital (F.V Rs 1)	256	248		256	248		248
Reserves (excl. revaluation reserves)	-	-		-	-		8,392
EPS for the period (Rs)	2.6	0.8		2.6	1.6		(1.7)
Book Value (Rs)	-	-		-	-		34.8
OPM (%)	42.7	14.1		22.4	14.6		6.4
NPM (%)	21.3	5.0		8.9	5.3		(3.0)
Expenditure (% of Net Sales)							
Raw materials (incl. stock adj.)	27.6	66.0		57.1	66.6		76.7
Staff Cost	8.2	5.5		6.1	5.3		5.4
Other expenses	21.6	14.5		14.5	13.5		11.5

Segmentwise results for the quarter & half year ended 31 March 2008

Particulars (Rs Mn)	Quarter Ended			Half Year Ended			Year Ended
	31/03/08	31/03/07	Gr %	31/03/08	31/03/07	Gr %	30/09/07
Segment Revenue							
Sugar	2,469	3,522	(29.9)	6,209	6,564	(5.4)	12,067
Distillery	498	457	8.9	848	664	27.7	1,424
Co-generation	947	588	60.9	1,503	1,039	44.7	1,885
Others	4	5	(18.5)	10	15	(37.9)	18
Total	3,918	4,573	(14.3)	8,569	8,282	3.5	15,394
Less: Intersegment	(805)	(585)		(1,159)	(912)		(1,425)
Gross Sales	3,114	3,988	(21.9)	7,410	7,370	0.5	13,970
PBIT							
Sugar	439	(7)	-	206	130	59.2	(1,011)
Distillery	171	171	(0.3)	318	244	30.4	506
Co-generation	491	277	76.9	738	475	55.3	872
Others	(7)	(2)	-	(8)	0	-	(6)
Total	1,093	439	149.0	1,253	849	47.7	362
Less: Interest	231	150		364	205		544
Less: Other Unallocable	54	52		79	100		171
PBT	809	237	241.3	810	543	49.2	(354)
Capital Employed							
Sugar	18,522	14,821		18,522	14,821		14,802
Distillery	1,593	1,642		1,593	1,642		1,543
Co-generation	6,504	5,442		6,504	5,442		5,999
Others	137	90		137	90		140
Unallocate	1,001	(803)		1,001	(803)		(981)
Total	27,756	21,192	31.0	27,756	21,192	31.0	21,503
PBIT Marg (%)							
Sugar	17.8	(0.2)		3.3	2.0		(8.4)
Distillery	34.2	37.4		37.5	36.7		35.5
Co-generation	51.8	47.1		49.1	45.7		46.3
Others	(152.3)	(40.7)		(88.4)	2.6		(29.9)
ROCE (%)							
Sugar	9.5	(0.2)		2.2	1.7		(6.8)
Distillery	42.8	41.7		39.9	29.7		32.8
Co-generation	30.2	20.4		22.7	17.5		14.5
Others	(19.6)	(9.7)		(12.3)	0.9		(3.9)
Sales Mix (%)							
Sugar	63.0	77.0		72.5	79.3		78.4
Distillery	12.7	10.0		9.9	8.0		9.3
Co-generation	24.2	12.9		17.5	12.5		12.2
Others	0.1	0.1		0.1	0.2		0.1
PBIT Mix (%)							
Sugar	40.1	(1.7)		16.4	15.3		(279.7)
Distillery	15.6	39.0		25.3	28.7		140.0
Co-generation	44.9	63.2		58.9	56.0		241.2
Others	(0.6)	(0.5)		(0.7)	0.0		(1.5)

Income Statement	2005	2006	2007	2008E	2009E
Revenues	8,127	18,984	13,917	16,032	15,854
<i>Growth (%)</i>	16.2	55.7	10.0	15.2	(1.1)
Total Expenditure	5,732	14,387	13,027	13,522	12,857
Operating Profit	2,394	4,597	891	2,509	2,997
<i>Growth (%)</i>	94.0	28.0	(70.9)	322.6	79.1
Interest & dividend income	29	68	102	96	101
EBIDT	2,424	4,665	993	2,606	3,098
(-) Interest	189	345	544	625	570
(-) Depreciation	373	671	802	1,040	1,150
PBT & extraordinary items	1,862	3,649	(354)	941	1,378
(-) Tax provision	389	733	65	163	225
PAT	1,473	2,916	(419)	777	1,153
Extra-ordinary Items	223	-	-	-	-
Net Profits	1,250	2,916	(419)	777	1,153
<i>Growth (%)</i>	106.7	133.3	(121.5)	(285.6)	48.4
Fully diluted Eq. sh. O/s (mn no)	231.8	248.2	248.2	265.5	265.5
Book Value (Rs)	21	37	35	41	46
Basic EPS (Rs)	5.4	7.8	(1.7)	2.9	4.3
Diluted EPS (Rs)	4.7	7.3	(1.6)	2.9	4.3

Balance Sheet	2005	2006	2007	2008E	2009E
<i>Equity Share Capital</i>	232	248	248	265	265
<i>Reserves & Surplus</i>	4,688	8,810	8,394	10,745	11,898
Net worth	4,920	9,058	8,642	11,010	12,164
Total Debt	3,864	5,474	12,862	10,962	8,896
Deferred Tax liability	1,017	1,193	1,232	1,272	1,369
Capital Employed	9,801	15,725	22,736	23,244	22,428
Fixed Assets	5,532	13,319	19,200	19,660	18,787
Net current assets	3,800	2,357	3,469	3,504	3,562
Investments	453	2	34	48	48
Misc exp.	15	46	32	32	32
Total Assets	9,800	15,724	22,736	23,244	22,428

Cash Flow Statement	2005	2006	2007	2008E	2009E
PBT & Extraord. items	1,862	3,649	(354)	941	1,378
Depreciation	373	671	802	1,040	1,150
Interest & dividend inc.	(2)	(3)	(0)	(96)	(101)
Interest paid	189	345	544	625	570
Tax paid	(320)	(487)	336	(123)	(128)
(Inc/Dec in working capital	(364)	1,328	(351)	28	77
Cash from operations	1,738	5,503	977	2,414	2,945
Net capital expenditure	(466)	(8,475)	(6,688)	(1,500)	(277)
Net investments	(450)	451	(736)	(14)	-
Interest recd	2	3	44	96	101
Cash from investing activities	(914)	(8,021)	(7,379)	(1,418)	(176)
Issue of eq. shares	1,704	2,154	-	1,592	-
Change in debt	(1,474)	1,610	7,418	(1,900)	(2,066)
Dividend paid	(215)	(989)	(424)	-	-
Interest paid	(173)	(354)	(582)	(625)	(570)
Cash from financing activities	(157)	2,421	6,412	(933)	(2,636)
Inc/Dec. in cash	667	(97)	10	63	134

Key Ratios	2005	2006	2007	2008E	2009E
EBIDT (%)	29.5	24.2	6.4	15.7	18.9
ROACE (%)	22.1	23.8	1.2	7.4	8.6
ROANW (%)	32.6	27.8	(4.7)	7.9	10.0
Sales/Total Assets (x)	0.9	1.4	0.6	0.8	0.8
Debt:Equity (x)	0.8	0.6	1.5	1.0	0.7
Current Ratio (x)	2.8	2.0	1.9	2.0	2.0
Debtors (days)	12.3	8.8	13.2	13.2	14.0
Inventory (days)	293.2	49.6	119.7	99.5	96.0
Net working capital (days)	153.4	37.4	98.9	72.2	74.3
EV/Sales (x)	3.3	2.4	1.8	2.3	2.2
EV/EBIDT (x)	11.0	9.8	25.3	14.4	11.4
P/E (x)	18.7	12.9	(59.9)	34.5	23.2
P/BV (x)	4.8	2.8	2.9	2.4	2.2

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