

Balrampur Chini Mills Ltd – BUY

CMP Rs120, Target Rs159

Sector: Sugar

Sensex:	16,358
CMP (Rs):	120
Target price (Rs):	159
Upside (%):	32.2
52 Week h/l (Rs):	167 / 42
Market cap (Rscr) :	3,107
6m Avg vol ('000Nos):	6,282
No of o/s shares (mn):	258

FV (Re):	1
Bloomberg code:	BRCM IB
Reuters code:	BACH.BO
BSE code:	500038
NSE code:	BALRAMCHIN

Prices as on 29 Jan, 2010

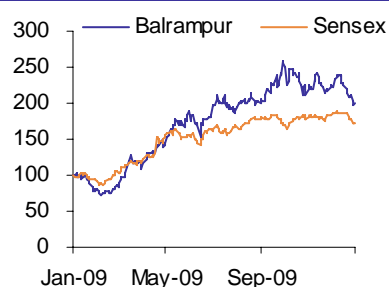
Shareholding pattern

December '09	(%)
Promoters	36.4
Institutions	40.8
Non promoter corp hold	6.5
Public & others	16.2

Performance rel. to sensx

(%)	1m	3m	1yr
Balrampur	(1.2)	(20.7)	29.9
Bajaj Hind	(3.6)	0.2	180.9
Renuka Sug	(1.9)	6.7	82.0

Share price trend



- ✦ A ~72% yoy surge in sugar realizations compensates for 37% sugar volume sales; topline up 2.3% yoy
- ✦ RM cost up 43% yoy as cane SAP increases to Rs190/qtl; OPM up 301bps on decline in other expenses
- ✦ PAT jumps 49% on lower interest cost, improved operating performance
- ✦ Firm sugar prices and attractive valuation support our BUY for a TP of Rs159

Result table

(Rs m)	Q1 F9/10	Q1 F9/09	% yoy	F9/09	% yoy
Net sales	4,395	4,295	2.3	17,471	17.2
Material costs	(2,483)	(2,492)	(0.4)	(10,640)	17.4
Personnel costs	(237)	(204)	16.2	(999)	15.6
Other overheads	(359)	(442)	(18.8)	(1,360)	1.3
Operating profit	1,316	1,157	13.8	4,472	22.9
OPM (%)	30.0	26.9	301 bps	25.6	118 bps
Depreciation	(269)	(275)	(2.4)	(1,160)	(7.4)
Interest	(173)	(249)	(30.6)	(1,068)	6.7
Other income	20	5	269.8	82	(46.1)
PBT	894	638	40.2	2,326	51.2
Tax	(129)	(125)	3.0	(231)	(9.9)
Effective tax rate (%)	14.4	19.6	-	9.9	-
Associate share	-	-	-	(4)	197.5
Adjusted PAT	766	513	49.2	2,090	63.3
Adj. PAT margin (%)	17.4	11.9	548 bps	12.0	338 bps
Reported PAT	766	513	49.2	2,090	166.8
Ann. EPS (Rs)	11.8	8.0	47.6	8.1	62.4

Source: Company, India Infoline Research

Note: full year numbers are consolidated

Sugar realizations up 73% yoy; topline grows 2.3%

Balrampur chini (BCML) reported a 2.3% growth in Q1 topline driven by 73% surge in sugar realization to Rs30/kg. Domestic sugar output is likely to be <16mn MT for the second consecutive season which has led to sugar prices to a record. Sugar as well as by-products volume growth is lower yoy as cane crushing marginally down by 5% yoy. BCML has contracted for 81,750MT of raw sugar of which it processed 8,180MT during the quarter. Increase in UP co-gen tariffs partly made up for lower co-gen unit sales.

Manufactured sugar inventory stood at 0.12mn MT valued at Rs26.7/kg while refined sugar stock was 7,900MT valued at Rs24/kg.

Segment-wise breakup

Revenue (Rs mn)	Q1 F9/10	Q1 F9/09	% yoy	F9/09	% yoy
Sugar	4,065	3,792	7.2	15,584	23.8
Distillery	100	332	(69.9)	1,312	(22.1)
Co-gen	509	557	(8.6)	1,834	(23.1)
Others	7	9	(20.9)	26	68.4

Source: Company, India Infoline Research

Key operating highlights

Operating performance	Q1 F9/10	Q1 F9/09	% yoy	F9/09	F9/08	% yoy
Cane crushed, mn MT	1.8	1.9	(5.0)	4.8	8.1	(40.0)
Sugar produced, mn MT	0.2	0.2	(3.5)	0.4	0.8	(46.0)
Recovery (%)	9.0	8.8	-	9.1	10.2	-
Sugar sales, mn MT	0.1	0.2	(37.3)	0.7	0.7	(10.5)
Realizations, Rs/kg	30.3	17.7	71.6	21.5	15.0	43.3
Distillery production, mn ltrs	2	12	(82.3)	48	91	(47.3)
Distillery sales, mn ltrs	4	12	(71.0)	50	85	(41.1)
Avg alcohol realizations, Rs/l	28	27	2.9	26	19	37.4
Co-gen production, mn units	124	168	(26.6)	495	791	(37.4)
Co-gen sales, mn units	84	119	(29.5)	358	573	(37.6)
Realizations (Rs/unit)	3.9	3.1	28.9	3.4	3.0	13.3

Source: Company, India Infoline Research

RM cost up 43% on higher cane SAP; PAT surges 49%

The company paid cane price (we reckon upwards of Rs210/qtl) based on the cane SAP of Rs190/qtl vs. Rs140/qtl for the previous season. However, sale of low cost sugar inventory valued at Rs21/kg coupled with tight control over other expenses led to 301bps yoy rise in OPM. Reported PAT also surged 49% on lower interest cost and improved operating performance.

Cost analysis

As a % of net sales	Q1 F9/10	Q1 F9/09	bps yoy	F9/09	F9/08	bps yoy
Material costs	56.5	58.0	(153)	60.9	60.8	12
Personnel costs	5.4	4.8	64	5.7	5.8	(8)
Other overheads	8.2	10.3	(212)	7.8	9.0	(122)
Total costs	70.0	73.1	(301)	74.4	75.6	(118)

Source: Company, India Infoline Research

Retain BUY on firm sugar prices, valuation comfort

Sugar prices are likely to remain >Rs40/kg till at least the start of next crushing season in Nov' 10 and than, depending on 2010-11 production could face some downward pressure. We factor in average realization of Rs39/kg in F9/10 and lower F9/10/11 OPM assumptions and EPS. The stock is trading below its 5-yr average EV/EBIDTA and we retain BUY with TP of Rs159.

Financial summary

Y/e 30 Sep Rs m	F9/08	F9/09	F9/10E	F9/11E
Revenues	14,909	17,471	26,524	32,630
yoy growth (%)	6.9	17.2	51.8	23.0
Operating profit	3,640	4,472	6,972	5,326
OPM (%)	24.4	25.6	26.3	16.3
Pre-exceptional PAT	1,280	2,091	4,099	2,748
Reported PAT	783	2,091	4,099	2,748
yoy growth (%)		166.9	96.1	(33.0)
EPS (Rs)	3.1	8.1	16.0	10.7
P/E (x)	39.1	14.7	7.5	11.2
P/BV (x)	3.1	2.7	2.1	1.9
EV/EBITDA (x)	12.1	9.0	5.3	7.0
Debt/Equity (x)	1.4	0.9	0.5	0.5
ROE (%)	13.8	19.6	31.7	17.7
ROCE (%)	10.6	14.0	24.8	16.7

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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