RESULT UPDATE √

Balrampur Chini (BALCHI)

Current Price	Target Price
Rs 34	Rs 48
Potential upside	Time Frame
41%	12 months

OUTPERFORMER

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WHAT'S CHANGED...

PRICE TARGET........Changed to Rs 48 from Rs 111
EPS (SY09E)........Changed to Rs 4 from Rs 7.4
EPS (SY10E)........Rs 8
RATING........OUTPERFORMER

Mixed Bag...

Balrampur Chini's results were below our estimates. The company reported its Q4SY08 (sugar year 2008) results with a topline growth of 40.0% to Rs 416.7 crore from Rs 297.8 crore in Q4SY07, supported by volume growth and improvement in price realisations. The quarter has also witnessed a 15.2% increase in raw material costs to Rs 287.3 crore from Rs 249.5 crore in Q4SY07. The company is currently holding a large sugar inventory, in anticipation of higher sugar prices, going forward. The rise in sugar prices resulted in a significant improvement in EBITDA margins this quarter to 17.3% from 0.8% in Q4SY07. Interest costs rose drastically by 115.3% to Rs 28.3 crore in Q4SY08 on account of higher interest rates. The company reported a net profit of Rs 14.6 crore in Q4SY08 as against a net loss of Rs 33.7 crore in the corresponding quarter of last year.

Segmental Performance

Revenues from the sugar segment witnessed a 51.4% growth to Rs 373.6 crore in Q4SY08 from Rs 246.8 crore in Q4SY07 on the back of relatively higher sugar price realisations. Average realisations increased to Rs 16.9 per kg this quarter from Rs 13.5 per kg in Q4SY07. The distillery segment registered a 55.8% growth in revenues to Rs 41.3 crore in Q4SY08 from Rs 26.5 crore in Q4SY07 on account of higher volumes and improved realisations. Average realisations in the distillery segment rose to Rs 23.2 per litre from Rs 17.6 per litre in Q4SY07. Alternatively, revenues from the cogeneration segment declined by 17.2% to Rs 27.0 crore from Rs 32.6 crore in Q4SY07 due to the decrease in the availability of bagasse, which led to the company operating for fewer number of days during the quarter.

Valuations

At the current price, the stock discounts its SY09E EPS of Rs 4.0 by 8.5x and SY10E EPS of Rs 8.0 by 4.3x. After the recent turmoil in the stock market, the stock is trading at attractive levels. The stock is trading at a 50% discount to its replacement cost of Rs 70.4 per share. We believe the company is well positioned to gain in a rising sugar price scenario due to its integrated business model and operational efficiency. However, disputes over sugarcane pricing between the industry and the state government pose concerns, going forward. We value the company at 6x its SY10E EPS of Rs 8.0 to arrive at a price target of Rs 48.

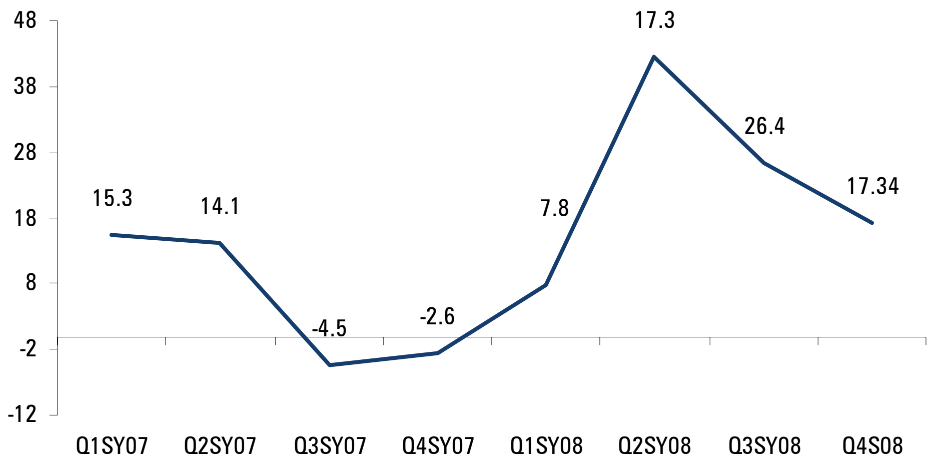
Exhibit 1: Key Financials (Rs crore)

	Q4SY08	Q4SY07	%change	SY08	SY07	%change	SY09E	SY10E
Net Sales	416.7	297.8	40.0	1504.0	1405.1	7.0	1724.8	1752.3
Raw Material Expenses	287.3	249.5	15.2	906.2	1071.0	-15.4	1131.9	1029.0
Staff Cost	19.1	17.6	8.8	86.4	73.8	17.2	82.7	79.6
Other Expenses	38.1	28.2	34.8	184.2	170.9	7.8	173.3	184.0
EBITDA	72.3	2.5	2767.5	327.2	89.4	266.0	336.9	459.8
EBITDA Margin (%)	17.3	0.8		21.8	6.4		19.5	26.2
Other Income	0.3	0.1	153.8	2.1	1.3	64.8	3.0	4.0
Depreciation	28.8	23.2	24.1	125.3	87.7	42.9	105.1	101.7
Interest	28.3	13.2	115.3	100.1	60.1	66.7	93.6	78.1
PBT	15.4	-33.8	NP*	104.0	-57.0	NP*	141.2	284.0
Tax	0.9	-0.1	NP*	25.6	6.5	294.3	35.1	71.0
PAT	14.6	-33.7	NP*	78.3	-47.3	NP*	106.1	213.0
Net Profit Margin (%)	3.5	-11.3		5.2	-3.4		6.2	12.2
EPS	0.6	-1.4	NP*	3.1	-1.9	NP*	4.0	8.0
PE (x)							8.5	4.3
EV/EBITDA (x)							5.6	3.4

Source: Company, ICICIdirect.com Research

NP - From negative to positive*

Exhibit 2: EBITDA Margins (%)



Source: Company, ICICIdirect.com Research

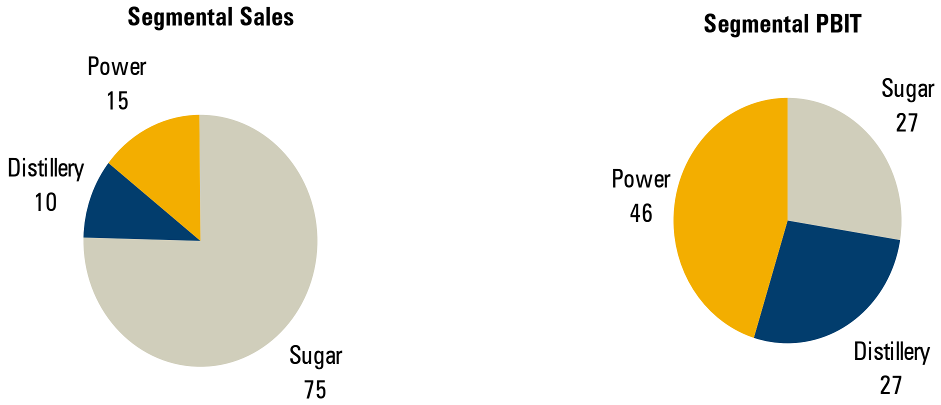
Revising estimates

Considering the delay in sugarcane crushing and rising sugarcane prices, we have revised our SY09E consolidated financial estimates downwards. We are revising our net sales for the SY09E from Rs 2252.7 crore to Rs 1724.8 crore due to lower sugar production, which will result from the delay in sugarcane crushing. We have revised net profit from Rs 195.4 crore to Rs 106.1 crore as the Uttar Pradesh state government had increased the state advise price (SAP) for sugarcane to Rs 140 per quintal. We are also introducing our SY10E financial estimates. We expect net sales to grow at a CAGR of 8.4% to Rs 1752.3 crore during SY08-10E. Net profit would grow at a CAGR of 65.0% to Rs 213 crore during SY08-10E.

Annual performance

The company posted a topline growth of 7.0% to Rs 1504.0 crore in SY08 from Rs 1405.1 crore in SY07 supported by higher contributions from the sugar and distillery segments. Raw material costs declined by 15.4% to Rs 906.2 crore in SY08 from Rs 1071.0 crore last year due to lower sugarcane prices of Rs 1100 per tonne in SY08 compared to Rs 1250 per tonne in SY07. This led to a remarkable improvement in EBITDA margins to 21.8% in SY08 from 6.4% last year. Interest costs rose considerably by 66.7% to Rs 100.1 crore from Rs 60.1 crore in SY07. The company has hedged its external commercial borrowings (ECBs) in order to counter interest rate and currency fluctuations. Depreciation provisioning also increased by 42.9% during the year due to additional capacities augmented at the Kumbhi and Gularia plants. This resulted in a net profit of Rs 78.3 crore in SY08 as against a net loss of Rs 47.3 crore registered in SY07.

Exhibit 3: Segmental Sales and PBIT SY08 (%)



Source: Company, ICICIdirect.com Research

Segmental Performance

Revenues from the sugar segment increased by 4% to Rs 1259.1 crore in SY08 from Rs 1211.0 crore last year led by an increase in average realisations from Rs 14.6 per kg in SY07 to Rs 14.9 per kg in SY08. In SY08, the cogeneration business registered a 26.5% increase in revenues to Rs 238.5 crore from Rs 188.5 crore in SY07 on the back of expanded capacities at Kumbhi and Gularia. The company operated its power plants for a higher number of days during the year, which enabled it to boost power generation by 16.8% to 7906.9 lakh units in SY08 from 6768.1 lakh units generated last year. During the year, the company sold its exportable power to the state grid at an average price of Rs 3.0 per unit. Conversely, the distillery segment witnessed a 37.3% rise in revenues in SY08 to Rs 168.4 crore from Rs 122.7 crore last year on account of higher volumes. Distillery volumes grew 40.3% to 91,088.5 kilo litre (KL) in SY08 from 64,937.0 KL in SY07. Average realisations stood stable at Rs 19.6 per litre in SY08.

Outlook

Crushing delays to sweeten the taste

The fall in cane procurement prices coupled with the noteworthy rise in farm-gate prices has resulted in a shift in acreage from cane to more profitable crops such as wheat, rice and oil seeds thereby, changing the economics of cultivation. Concurrently, delays in large cane payment arrears have also led to a decline in cane acreage thereby, inducing cyclicality in the production of cane. This has resulted in a one and a half month delay in the commencement of the crushing season, which typically begins during the first week of October. This delay, along with the decrease in cane acreage, will lead to a decline in domestic sugar production to 20 million tonnes in SY09 and further to 18 million tonnes (MT) in SY10. With the country witnessing an unprecedented rise in sugar exports from1.5 MT in SY07 to 4.8 MT in SY08 a shrinkage of the sugar surplus to 6.1 MT at the end of SY09 and 1.1 MT at the end of SY10 is imminent.

Exhibit 4: Domestic sugar demand supply scenario (million tonnes)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09E	2009-10E
Production	18.5	20.1	13.5	12.7	19.3	28.5	26.3	20	18
Domestic consumption	16.8	17.5	17.9	18.5	19	21	22	23	23
Exports	1	1.5	0.2	0	1.1	1.5	4.8	0	0
Imports	0	0	0.4	2.1	0	0	0	0	0
Opening stock	10.6	11.2	12.3	8.1	4.4	3.6	9.6	9.1	6.1
Closing stock	11.2	12.3	8.1	4.4	3.6	9.6	9.1	6.1	1.1
Closing Stock (Months)	7.6	8.4	5.4	2.9	2.3	5.4	5.0	3.2	0.6

Source: Company, ICICIdirect.com Research

Global demand supply favourable

Global sugar production is also likely to decline from 168.4 MT in SY08 to 164.0 MT in SY09 due to the lower production in Brazil and India. Simultaneously, sugar consumption would also increase from 159.1 MT to 164.5 MT. This would help reduce the surplus from the global market and, hence, cause a rise in sugar prices.

Exhibit 5: Global Demand Supply Scenario (million tonnes)

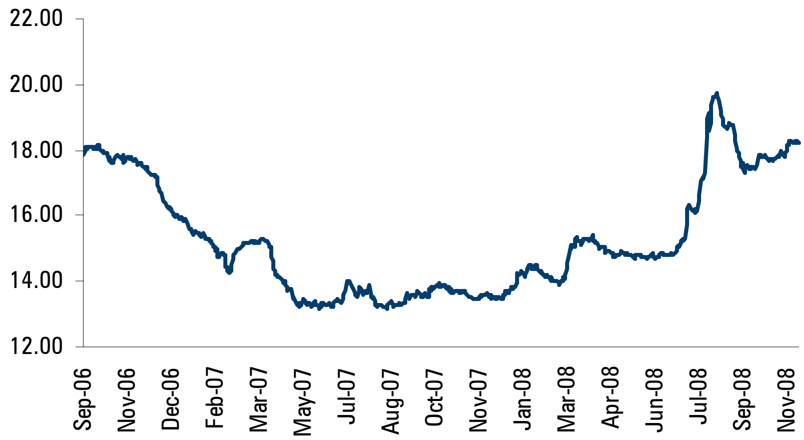
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08E	2008-09E
Production	148.52	142.46	141.15	144.6	166.03	168.43	164
Domestic consumption	139.02	139.58	142.3	143.85	154.82	159.12	164.5
Export availability	47.44	46.94	47.75	50.69	46.12	49.31	50.24
Imports demand	41.54	42.12	45.2	44.92	46.02	46.02	42.04
Opening stock	36.72	40.32	38.38	34.68	29.66	40.77	46.79
Closing stock	40.32	38.38	34.68	29.66	40.77	46.79	38.09
Closing Stock (Months)	3.4	3.2	2.9	2.4	3.1	3.5	2.7

Source: Company, ICICIdirect.com Research

Sugar prices to remain firm

We believe sugar prices will continue to remain firm above Rs 17 per kg in SY09 and will witness a further price increase to Rs 19 per kg in SY10 in anticipation of a lower surplus of sugar in the industry. When closing stock peaked in 2002-03 to 8.4 MT, production in the subsequent years (2003-04 and 2004-05) witnessed a concurrent decline to 13.5 MT and 12.7 MT, respectively causing a rise in sugar prices. With closing stock peaking at 9.6 MT in 2006-07 and 9.1 MT in 2007-08, we believe a similar pattern will surface causing production to decline in SY09 to 20 MT and 18 MT in SY10.

Exhibit 6: Sugar prices (Rs per kg)



Source: Company, ICICIdirect.com Research

Concerns

Sugar cane prices remain under a cloud

Sugar cane prices continue to be a contentious issue particularly in Uttar Pradesh where there is a lack of clarity on prices. Currently, the Uttar Pradesh government has fixed the state advised price for the 2008-09 sugar season at Rs 140 per quintal against last year's price of Rs 110 per quintal connoting a highly negative stance for the industry. However, the price now remain sub-judice as the Uttar Pradesh Sugarcane Federation has filed a writ petition against the order in the Allahabad High Court for which the hearing is currently in progress and awaiting final judgment in the Supreme Court.

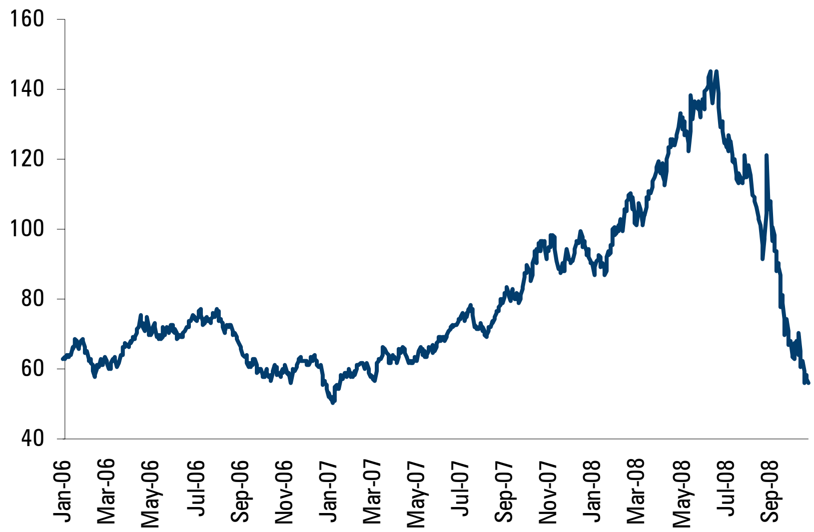
Ad hoc government measures remain an overhang

The Indian sugar industry has historically been heavily regulated with unabated government intervention. The imposition of regulatory policies poses significant risks to the industry as well as the company. With elections impending inflation control remains the chief priority for the government. This would denote that a constraint on both, sugar prices as well as the quantum of exports, is inevitable.

Crude decline: Brazil could divert from ethanol to sugar

The sharp deceleration in crude oil prices has put into question the viability of ethanol. This drastic decline in crude is also likely to adversely affect the demand for ethanol, which could consequently, encourage Brazilian mills to divert their production from ethanol to sugar. This will result in a lower deficit of sugar in 2008-09 and thus, exert further pressure on global sugar prices. Higher sugar production in Brazil poses a significant risk to Indian imports, which, in turn, could induce domestic manufacturers to keep sugar prices down.

Exhibit 7: Crude Price ($ per barrel)



Source: Company, ICICIdirect.com Research

Valuations

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Exhibit 8: Replacement cost

	Capacities	Replacement Cost per unit (Rs crore)	Total Cost (Rs crore)
Sugar (TCD)	73500	0.03	2205
Distillery(KLPD)	320	0.35	112
Power (MW)	126	4	504
Total Cost			**2821**
Total long term Debt			1023
Replacement Cost)			**1798**
Equity Share			**25.6**
			(Rs)
Replacement Cost per share			**70.4**

Source: Company, ICICIdirect.com Research

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Performer: Between 10% and 20%;
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