

Balrampur Chini Mills

Sensex: 19580

CMP: INR 49

Target : INR 63



Sugar

Balrampur Chini came out with better than expected set of numbers on the back of robust profitability clocked by sugar division, which were aided by sharp improvement in volumes, better realisations and liquidation of low cost inventory. Sugar prices have remained buoyant over the past six months on account of lower production estimate of 23 mt for this season (26 mt in 2011-12). Revenues from byproduct - ethanol and co-generation segments however remained subdued due to delayed start in crushing this season and lack of clarity on the ethanol pricing. We change our estimates to factor in higher sugar cane prices and retain our BUY rating on the stock with a revised target of INR 63.

Superlative performance from sugar segment

Sugar segment reported a strong revenue growth of 50.6% YoY in Q3FY13, on the back of 35.2% increase in sales volumes to 26.5 lakh qtl & 16.7% surge in free sugar sale realizations to INR 34.7/kg. Sharp surge in sugar prices coupled with liquidation of low cost inventory enabled BCML to report a profit of INR 634 mn on the EBIT level as against a loss of INR 821 mn reported in Q3FY12. Profitability of this segment is expected to remain muted due to the hike in State administered Price of sugar cane by 16% to INR 280/qrtl (leading to cost of production of ~INR 34/kg as against price of ~INR 33/kg prevailing currently).

18.9% decline in crushing volumes

BCML crushed 2.27 cr qtl of cane during the last quarter compared to 2.80 cr qtl in the corresponding previous period. This is primarily on account of early start of crushing witnessed during the last season as compared to the current sugar season. The Recovery rate however improved to 9.0% as compared to 8.8% during the corresponding period of the previous season.

Sequential decline in interest expenses

Interest expenses declined sequentially by 48.7% to INR 216 mn, primarily on account of decline in working capital requirements owing to improving profitability. As on Dec 2012, BCML is carrying a long-term debt of INR 5970 mn and a working capital debt of INR 1100 mn.

Rangarajan committee report - Implementation remains the key

Although the Rangarajan committee report on decontrol of sugar holds tremendous potential, implementation of the same remains a serious challenge. Removal of 10% levy sugar quota (to improve realizations by ~INR 1.5/kg), market pricing of ethanol and doing away with monthly release mechanism (already increased from 1 month to 4 month), are the only recommendations that can be implemented as of now. The probability of other recommendations getting implemented like a) linking sugarcane price to realized value from sugar, molasses and bagasse with FRP forming a floor, b) removal on quantitative restriction on sugar exports and imports, c) removal of controls on sale of by-products, and d) gradual phasing away of cane area reservation and minimum distance criteria for mills, appears limited in near term.

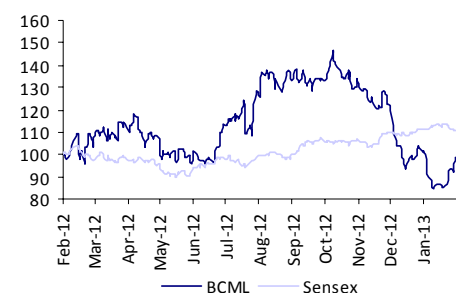
Outlook & Valuation

BCML being one of the country's largest integrated sugar manufacturing companies is expected to successfully ride through current turbulent times. We believe Dr. Rangarajan's recommendations if accepted will lead to rerating of the sector. The company remains well placed to encash any opportunity due to deregulation, based on declining long term debt and healthier balance sheet.

Post the hike in SAP to INR 280/qrtl, the stock has corrected significantly and is currently trading at 0.9x its FY14E BV of INR 57. We have changed our estimates to factor in higher sugar cane price and retain our BUY recommendation on the stock with a revised target of INR 63.

Shareholding (%)	Dec-12
Promoters	40.93
FIIIs	19.64
DIIIs	13.76
Others	25.67

Relative Price Performance



Key Data	
BSE Code	500038
NSE Code	BALRAMCHIN
Bloomberg Code	BRCM IN
Reuters Code	BACH.BO
Shares O/S (mn)	244.30
Face Value	1
Mcap (INR bn)	11.86
52 Week H/L	74.50/42.05
2W Avg. Qty, NSE	1374357
Free Float (INR bn)	7.01
Beta	0.90

Y/E March (INR mn)	FY11*	FY12	FY13E	FY14E
Net Sales	29766	23095	31923	34835
Growth (%)	68.35%	-22.41%	38.22%	9.12%
EBIDTA Margin (%)	17.32%	10.30%	12.64%	10.22%
APAT	1732	4	1188	857
Growth (%)	-18.33%	-99.77%	-	-27.83%
EPS	6.76	0.02	4.86	3.51
P/E	11.06	NA	9.99	13.84
P/BV	1.39	1.15	0.90	0.85
EV/EBIDTA	6.92	12.75	7.06	7.84
Net Debt-Equity Ratio	1.42	1.63	1.39	1.30
RoACE (%)	13.73	4.58	9.53	7.96
RoAE (%)	14.24	NA	9.39	6.32

Domestic production outlook - Bleak

Sugar production is expected to decline by ~3 mt YoY to ~23 mt in 2012-13 on the back of ~19% decline in combined production in two sugarcane growing states of Maharashtra and Karnataka to ~9 mt. However lower production will be partially compensated by improved production in UP (+10%) and TN (+5%) respectively. This will result in stable sugar prices at ~INR 33- 35 kg in coming quarters. However, further worsening of domestic sugar production might lead to further spurt in domestic sugar prices.

Recovery in Brazil resulting in stable production globally

Rebound in Brazilian sugar output (+3.9 mt to 38.1 mt), the biggest exporter, and improved harvests in China (+19% to 13.7 mt), the largest net importer, and Australia (+0.5 mt to ~4.5 mt), the third biggest exporter, is likely to boost global sugar supply by 2.3% to a record 177.4 mt. This would result in supply outpacing global demand for a third consecutive year by 5.9 mt in 2012-13. World stockpiles are expected to reach a four-year high of 31.6 mt at the beginning of 2012- 2013.

Comfortable global demand supply balance implies weak to stable international sugar prices. Accordingly, raw sugar prices have corrected from 24c/lb to below 19c/lb and we believe that global sugar prices are likely to find base at these levels because of ethanol price parity at around 19c/lb.

5% ethanol blending program

Distillery segment's revenues declined by 43.4% YoY on the back of 44.1% decline in volumes due to lack of clarity on ethanol pricing. The Indian Government has notified the ethanol blending program requiring the Oil Marketing Companies (OMCs) to sell ethanol blended petrol up to 10% in order to achieve the mandatory blending of 5% across the country as a whole. As per CCEA decision, ethanol prices can be determined by OMCs and ethanol producers.

The OMCs have already floated tenders to procure ethanol to the extent of 1.05 million kl, which can go up to 1.4 million kl. Since the blending has to begin effective June 1, tenders are expected to be awarded by April 13.

Quarterly Financials

Particulars (INR mn)	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	YoY Chg	QoQ Chg	9MFY13	9MFY12	YoY Chg
Net Sales	6621	5778	6920	8882	9499	43.48%	6.95%	25301	17318	46.10%
Other Income	31	67	57	56	56	82.52%	0.89%	169	210	-19.68%
Total Income	6652	5844	6976	8938	9556	43.66%	6.91%	25470	17528	45.31%
Total Expenditure	6721	3842	6348	7676	8316	23.72%	8.34%	22339	16871	32.41%
Cost of Goods sold	5976	2761	5743	7062	7491	25.36%	6.07%	20296	14996	35.34%
Employee Expenses	302	370	263	289	340	12.60%	17.58%	891	807	10.39%
Other Expenses	444	711	343	325	485	9.24%	49.32%	1152	1067	7.92%
EBIDT	(70)	2002	629	1263	1240	LP	-1.77%	3131	658	376.17%
EBIDTM (%)	-1.52%	33.50%	8.26%	13.58%	12.46%	1398 bps	(112 bps)	11.71%	2.58%	913 bps
Interest	294	412	535	421	216	-26.51%	-48.69%	1172	1063	10.31%
PBDT	(363)	1591	93	842	1024	LP	21.71%	1959	(405)	LP
Depreciation	277	280	274	276	271	-1.92%	-1.56%	821	828	-0.88%
PBT	(640)	1311	(181)	566	753	LP	33.04%	1138	(1233)	LP
Tax	0	12	0	77	151	-	95.46%	228	0	-
APAT	(640)	1299	(181)	489	602	LP	23.20%	910	(1233)	LP
APATM (%)	-9.67%	22.49%	-2.61%	5.50%	6.34%	1601 bps	84 bps	3.60%	-7.12%	1072 bps
EPS	(2.62)	5.32	(0.74)	2.00	2.47	LP	23.20%	3.73	(5.05)	LP

Segment Performance

Sugar										
Sales Volumes (lacs qtl)	19.6	15.2	19.2	24.0	26.5	35.20%	10.51%	69.7	51.9	34.23%
Avg realisation - free sugar (INR/kg)	29.7	29.0	29.7	34.3	34.7	16.73%	1.11%	33.2	28.7	15.76%
Revenues	6115	5179	5819	4701	9209	50.58%	95.90%	23271	15518	49.96%
PBIT	(821)	803	(228)	(30)	634	LP	LP	1156	(1024)	LP
PBITM (%)	-13.43%	15.50%	-3.91%	-0.64%	6.89%	2032 bps	752 bps	4.97%	-6.60%	1157 bps
Distillery										
Distillery - Sales Volumes (KL)	6914	16841	20017	21338	3868	-44.06%	-81.87%	45223	37876	19.40%
Average realisation (INR/BL)	33.9	26.7	26.4	27.6	33.8	-0.24%	22.72%	27.6	25.6	7.77%
Revenues	236	453	534	290	134	-43.43%	-53.98%	1258	1024	22.86%
PBIT	68	218	229	92	51	-25.77%	-44.95%	512	320	59.98%
PBITM (%)	28.94%	48.13%	42.93%	31.75%	37.98%	904 bps	623 bps	40.71%	31.26%	944 bps
Cogeneration										
Power - Sales (lakh units)	1281	2209	1734	384	975	-23.84%	153.96%	3093	3059	1.11%
Average realisation (INR/unit)	4.11	3.93	4.21	4.13	4.21	2.43%	1.94%	4.20	4.19	0.25%
Revenues	829	1309	799	176	679	-18.11%	286.61%	1681	1722	-2.36%
PBIT	454	751	446	(36)	333	-26.68%	LP	774	670	15.49%
PBITM (%)	54.78%	57.39%	55.79%	-20.40%	49.05%	(573 bps)	6945 bps	46.04%	38.93%	711 bps

Financials

Income statement

Y/E March (INR mn)	FY11*	FY12	FY13E	FY14E
Net Sales	29766	23095	31923	34835
Growth (%)	68.35%	-22.41%	38.22%	9.12%
Cost of goods sold	20330	17755	24243	26604
Employees Cost	1680	1177	1277	1393
Other Mfg. Expenses	1386	1054	1437	1568
Total Expenditure	24610	20716	27888	31275
EBIDTA (without OI)	5156	2380	4035	3560
Growth (%)	15.38%	-53.85%	69.57%	-11.76%
EBITDA Margin %	17.32%	10.30%	12.64%	10.22%
Depreciation	1731	1155	1226	1259
EBIT	3425	1225	2809	2301
EBIT Margin %	11.50%	5.30%	8.80%	6.61%
Interest Expenses	1486	1474	1402	1372
Other Income	300	265	245	264
EBT	2238	16	1652	1193
Tax Expenses	611	12	464	335
PAT	1627	4	1188	857
Extraordinary Items	(105)	0	0	0
Net Profit	1732	4	1188	857
Growth (%)	-18.33%	-99.77%	-	-27.83%
Net Profit Margin (%)	5.82%	0.02%	3.72%	2.46%
EPS	6.76	0.02	4.86	3.51
Growth (%)	-18.33%	-99.74%	-	-27.83%

Key Ratios

Y/E March	FY11*	FY12	FY13E	FY14E
Per Share Data (INR)				
Adjusted EPS	6.76	0.02	4.86	3.51
CEPS	14.33	4.73	9.89	8.67
DPS	0.75	0.00	0.30	0.50
BVPS	50.64	49.61	53.98	57.07
Return Ratios				
RoACE (%)	13.73	4.58	9.53	7.96
RoAE (%)	14.24	0.03	9.39	6.32
Balance Sheet Ratios				
Net Debt-Equity Ratio	1.42	1.63	1.39	1.30
Current Ratio	7.23	3.27	3.25	3.56
Interest Cover Ratio	2.51	1.01	2.18	1.87
Efficiency Ratios				
Total Asset Turnover	1.10	0.71	1.00	1.08
Inventory Days	137	307	263	237
Debtors Days	7	19	16	16
Creditors Days	17	63	61	55
Valuations				
P/E	11.06	NA	9.99	13.84
P/BV	1.39	1.15	0.90	0.85
Dividend Yield (%)	1.07	0.00	0.62	1.03
Market Cap / Sales	0.60	0.60	0.37	0.34
EV/EBIDTA	6.92	12.75	7.06	7.84

* FY11 is for a period of 18 months due to change in accounting year from Sep

Balance Sheet

Y/E March (INR mn)	FY11*	FY12	FY13E	FY14E
SOURCES OF FUNDS				
Share Capital	256	244	244	244
Reserves	12723	11877	12943	13699
Total Networth	12980	12121	13187	13943
Total Debt	20035	19905	18905	18455
Total Liabilities	33015	32026	32092	32398
APPLICATION OF FUNDS				
Net Block	17168	16146	15074	13965
Capital Work in Progress	61	4	50	100
Investments	15	422	422	422
Total Current Assets	20913	25494	27125	28024
Total Current Liabilities	2894	7796	8336	7870
Net Current Assets	18020	17698	18789	20154
Net Deferred Tax	(2248)	(2245)	(2243)	(2243)
Total Assets	33015	32026	32092	32398

Cash Flow

Y/E March (INR mn)	FY11*	FY12	FY13E	FY14E
EBT	2238	16	1652	1193
Depreciation	1731	1155	1226	1259
Interest	1486	1474	1402	1372
Inc./Dec. in working capital	(13028)	(936)	(672)	(1585)
Tax paid	(375)	(16)	(463)	(334)
Other Income	(300)	(265)	(245)	(264)
Cash flow from operations (a)	(8248)	1428	2901	1641
Inc./Dec. in investments	1207	(406)	0	0
Change in Fixed Assets	(485)	(94)	(154)	(150)
Change in CWIP	17	57	(46)	(50)
Others	0	0	(0)	0
Cash flow from investing (b)	739	(444)	(200)	(200)
Inc./Dec. in capital	202	(12)	0	0
Inc./Dec. in debts	10130	(131)	(1000)	(450)
Dividend paid	(185)	0	(73)	(1)
Interest paid	(1486)	(1474)	(1402)	(1372)
Others	96	(825)	194	162
Cash flow from financing (c)	8756	(2442)	(2281)	(1661)
Opening cash balance	342	1589	131	551
Cash Flow during the year (a+b+c)	1247	(1458)	419	(220)
Closing cash balance	1589	131	551	330

 Sharad Avasthi Dy Head - Equity Research sharad.avasthi@spagroupindia.com Tel.: +91-33-4011 4800 Ext.832

Disclaimer: This report is for the personal information of the authorized recipient and does not constitute to be any investment, legal or taxation advice to you. SPA Securities Limited (hereinafter referred as SPA) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The intent of this document is not in recommendatory nature. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. SPA or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. SPA or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement.

The recipients of this report should rely on their own investigations. SPA and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. SPA has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement

- | | |
|--|------|
| 1. Analyst ownership of the stock | - No |
| 2. Group/Directors ownership of the stock | - No |
| 3. Broking relationship with company covered | - No |

This information is subject to change without any prior notice. SPA reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, SPA is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

SPA Securities Limited : SPA House, Nyay Sagar, Near Gurunanak Hospital, Bandra (E), Mumbai - 400051, Tel. No. : +91-022-4289 5600

For More Information Visit Us At : www.spasecurities.com

SPA CAPITAL SERVICES LIMITED	SPA COMTRADE PRIVATE LIMITED	SPA Securities Ltd	SEBI Reg. Nos.
Investment Advisory Services, AMFI Reg. No. ARN-0007	Member of NCDEX & MCX. NCDEX TMID-00729, NCDEX FMC No.NCDEX/TCM/CORP/0714	NSE Cash NSE Future & Option NSE Currency Derivatives BSE Cash BSE Currency Derivatives MCX-SX Currency Derivatives	INB231178238 INF231173238 INE231178238 INB011178234 INE011178234 INE261178238
SPA CAPITAL ADVISORS LIMITED.	SPA INSURANCE BROKING SERVICES LTD.	OTCEI PMS CDSL DP NSDL DP	INB200891838 INP000003179 IN-DP-CDSL-485-2008 IN-DP-NSDL-316-2009
SEBI registered Category-1 Merchant Bankers SEBI Regn. No. INM000010825	Direct Broker for Life and General Insurance Broking IRDA Lic. Code No. DB053/03		