



Balrampur Chini Mills Ltd (BCML) – Reaffirm our best pick in the sugar sector

BCML has announced its 1QFY13 results and the results were below street expectation. Key highlights of results are as follow:

Key Highlights

- Net sales for 1QFY13 increased by 22.0% YoY to ₹6919.6 mn mainly led by 23.8% YoY growth in sales of Sugar division to ₹5819.4 mn. The growth in sugar division was due to increase in sales volume to the tune of 17.1% YoY to 0.19 mn tonnes coupled with 6.6% YoY increase in free sale sugar realisation to ₹29.7/Kg.
- Consequently, EBITDA for 1QFY13 increased by 43.3% YoY to ₹571.9 mn and margin expanded by 130 bps to 8.3%. Interest cost increased by 28.9% YoY to ₹535.2 mn due to higher working capital requirement and higher interest cost scenario. Overall, the company reported loss of ₹180.5 mn at bottomline.
- **Outlook on domestic sugar cycle:** The pan India sugar production in SY13 is likely to be in the range of 24-25 mn tonnes as against earlier expectation of ~25 mn tonnes. Weak monsoon is likely to reduce combined sugar production in Maharashtra and Karnataka to 10 mn tonnes against the earlier expectation of 13 mn tonnes. On the other hand, due to reasonably well rainfall in UP and payment of previous cane arrears, acreage under sugarcane cultivation is likely to go up 8-10%, whereas yield is expected to remain flat. Overall, sugar production in UP is likely to go up by 8-10% to ~7.7 mn tonnes.
- The sugar production in SY12 has been 26 mn tonnes and with sugar consumption of 22-23 mn tonnes coupled with ~3 mn tonnes exports in SY12, India is likely to enter into SY13 with inventory of 4-5 mn tonnes, which we believe is fairly balanced demand-supply scenario. Recently, ex-mill sugar price hit the high of ₹36.5/kg, which we believe is likely to stabilise in the range of ₹32-34/Kg. **More clarity on sugar production and likely sugar price will emerge in next 5-6 months depending on monsoon and hence likely sugarcane output over next 2 months.**
- **International Scenario:** Internationally, till 17th Jul12, sugar production in key sugar producing areas of Brazil like South Central and Sao Paulo is down 22% and 26% YoY to 9.3 mn tonnes and 6.1 mn tonnes respectively. Globally, as per industry estimates, sugar production is likely to be surplus in the range of 5-6 mn tonne and hence white sugar prices should stabilise around \$600/tonne. In case, sugar production in key sugar producing countries like Brazil, Thailand, Australia, and India falls drastically, then international sugar prices may rally from here.
- **Reforms in sugar sector policy:** The industry is optimistic that the suggestions of Rangarajan Committee on sugar sector reforms will be accepted by the govt in next 6-8 months. It is expected that govt may completely or partially remove discounted levy sugar sales, link ethanol price to petrol price and link sugarcane price with sugar price.

Valuations

At CMP, the stock is trading at P/BV of 1.1x FY14E BV and EV/EBITDA of 4.0x FY14E earnings. **We reiterate our BUY rating on the stock with rolled over Aug13 price target of ₹80/share (based on average of target FY14E EV/EBITDA (adjusted for WC debt) of 5.0x and FY14E P/BV of 1.2x).**

Financial Snapshot (₹ mn)

In ₹ mn	Sales	YoY (%)	EBITDA	YoY (%)	Adj.PAT	YoY (%)	EPS (₹)	YoY (%)	EBITDA (%)	RoE (%)	RoCE* (%)	P/E (x)	EV/EBITDA* (x)	P/B (x)
FY11 (18 months)	29,766	75.1	5,182	15.6	1,686	(25.6)	6.6	(25.5)	17.4	13.7	20.0	9.6	3.5	1.3
FY12	23,095	(22.4)	2,382	(54.0)	66	(96.1)	0.3	(95.9)	10.3	0.5	9.2	232.1	8.5	1.3
FY13E	26,392	14.3	3,826	60.6	1,047	1,479.4	4.3	1479.4	14.5	8.3	17.8	14.7	4.9	1.2
FY14E	28,701	8.7	4,477	17.0	1,473	40.6	6.0	40.6	15.6	10.7	21.8	10.5	4.0	1.1

Source: Company, ABML Research (Note: BCML has changed FY from Oct-Sept to Apr-March, hence FY11 is for 18 months)

* Excluding WC debt

Rating	Closing Price (₹)	Target Price (₹)	Upside / (Downside) %
Buy	63.0	80.0	27.6%

Source: ABML Research

Company Data

BSE Code	500038
NSE Code	BALRAMCHIN
Equity Capital (₹ mn)-FY12	244.3
Face Value (₹)	1
Market Cap (₹ bn)	15.4
Avg Daily Volume (Qty)	1565832
52 week H/L (₹)	65.0/32.7

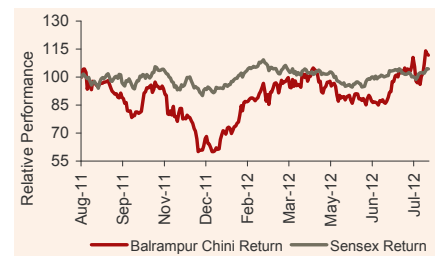
Source: NSE, BSE

Shareholding (%)

Holders	Jun12	Mar12	Dec 11
Promoters	40.9	40.1	40.1
FII's	16.0	15.0	14.6
MFs/Banks & FI's	13.1	15.0	16.9
Public & Others	30.0	29.9	28.4

Source: BSE

Chart: BCML vs. Sensex



Source: Capitaline

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Other Key Highlights

- The loss in 1QFY13 is partially due to accounting methods adopted by the company wherein company books all its expense in the respective quarter, irrespective of the benefit accruing in the following qtrs. Hence, even in rising sugar price scenario, usually profitability in lean quarters like 1Q and 2Q are subdued and 4Q is the best.
- With sugar prices looking up, management expects trade pipeline to absorb some quantity of sugar, which is why the sugar prices have risen steeply by ₹6-8/Kg in the last 30-40 days.

Key Assumptions

Particulars	Unit	FY13E	FY14E
Cane Crushed	mn tonnes	8.9	7.5
Recovery rate	%	9.5	9.4
Cane cost	₹/tonne	2644	2830
Sugar sold	mn tonnes	0.66	0.68
Blended realisation	₹/tonne	31269	33784
Alcohol Sold	mn litres	69.5	71.1
Avg Realisation	₹/litre	27.0	28.5
Total Power Sold	mn units	547	460
Avg Realisation	₹/unit	4.3	4.4

Source: Company data, ABML Research

Estimate Variance

Particulars (₹ mn)	FY13E - New	FY13E - Earlier	% Chg	FY14E - New	FY14E - Earlier	% Chg
Net Sales	26392	24386	8.2	28701	26015	10.3
EBITDA	3826	3408	12.3	4477	3689	21.4
PAT	1047	908	15.4	1473	1129	30.4

Source: ABML Research, Company data

Standalone Financial Results (1Q FY13) - BCML

Particulars (₹ mn)	1QFY13	1QFY12	YoY%	4QFY12	QoQ%
Net Sales	6919.6	5669.7	22.0	5777.5	19.8
(Inc)/Dec in Stock in trade	5081	416	1121.3	-11366	144.7
as a % of Net Sales	73.4	7.3		-196.7	
Raw Material Cost	661.9	4323.1	-84.7	14126.9	-95.3
as a % of Net Sales	9.6	76.2		244.5	
Employee Cost	262.5	242.6	8.2	370.2	-29.1
as a % of Net Sales	3.8	4.3		6.4	
Other Expenditure	342.7	289.0	18.6	711.4	-51.8
as a % of Net Sales	5.0	5.1		12.3	
Total Expenditure	6347.7	5270.7	20.4	3842.3	65.2
EBITDA	571.9	399	43.3	1935.2	-70.4
as a % of Net Sales	8.3	7.0		33.5	
Other income & Other Ops.Income	56.7	93.2	-39.2	66.9	-15.2
as a % of Net Sales	0.8	1.6		1.2	
Depreciation & Amortization	273.9	275.7	-0.7	279.7	-2.1
PBIT	354.7	216.5	63.8	1722.4	-79.4
Interest Expense	535.2	415.1	28.9	411.5	30.1
PBT	-180.5	-198.6	9.1	1310.9	-113.8
as a % of Net Sales	-2.6	-3.5		22.7	
Tax Expenses	0	0		11.6	-100.0
Tax rate %	0.0	0.0		0.9	
PAT	-180.5	-198.6	9.1	1299.3	-113.9
as a % of Net Sales	-2.6	-3.5		22.5	
EO Gain/(loss)	0	0	-	0	-
Adjusted PAT	-180.5	-198.6	9.1	1299.3	-113.9
EPS-Basic	-0.7	-0.8	8.2	5.3	-113.9
EPS-Diluted	-0.7	-0.8	8.2	5.3	-113.9

Source: Company data, ABML Research

Segment-wise Performance

Segment – Revenue					
Particulars (₹ mn)	1QFY13	1QFY12	YoY%	4QFY12	QoQ%
Sugar	5819.2	4701.9	23.8	5179.4	12.4
Distillery	533.7	497.8	7.2	453.4	17.7
Cogeneration	798.9	717.7	11.3	1308.7	-39.0
Others	20	4.7	325.5	7.3	174.0
Total	7171.8	5922.1	21.1	6948.8	3.2
Less: Intersegment	243.4	207	17.6	1149.4	-78.8
Net Sales	6928.4	5715.1	21.2	5799.4	19.5
Segment – PBIT					
Particulars (₹ mn)	1QFY13	1QFY12	YoY%	4QFY12	QoQ%
Sugar	-227.7	-172.7	31.8	802.7	-128.4
Distillery	229.1	159.7	43.5	218.2	5.0
Cogeneration	445.7	252.1	-76.8	751.1	40.7
Others	1.0	-2.1	-147.6	0.1	900.0
Total	448.1	237	-89.1	1772.1	-74.7
Segment - PBIT Margin					
Particulars (%)	1QFY13	1QFY12	YoY%	4QFY12	QoQ%
Sugar	-3.9	-3.7	-	15.5	-
Distillery	42.9	32.1	-	48.1	-
Cogeneration	55.8	35.1	-	57.4	-
Others	5.0	-44.7	-	1.4	-
Total	6.2	4.0	-	25.5	-

Source: Company data, ABML Research

Recommendation summary

Date	Reports	Rating	Last Closing Price (₹)	Target Price (₹)	Upside / Downside %
31 st May 2011	Initiating Coverage	Buy	60.1	80.0	33.6
3 rd Aug 2011	Result Update (1QFY12)	Buy	55.9	74	32.4
23 rd Nov 2011	Result Update (2QFY12)	Buy	42.9	59.0	37.5
3 rd Feb 2011	Result Update (3QFY12)	Buy	49.0	63.0	28.6
12 th Jun 2012	Result Update (4QFY12)	Buy	49.0	60.0	22.4
9 th Aug 2012	Result Update (1QFY13)	Buy	63.0	80.0	27.6

Source: ABML Research

Standalone Financials – Balrampur Chini Mills Ltd (BCML)

Profit & Loss				
In ₹ million	FY11 (18 months)	FY12	FY13E	FY14E
Net sales	29,766	23,095	26,392	28,701
YoY (%)	75.1	(22.4)	14.3	8.7
Total expenses	24,584	20,713	22,566	24,224
Incl/dec in stock	(11,512)	(4,871)	(4,408)	(89)
Raw material cost	31,842	22,626	23,661	21,360
Employee Cost	1,677	1,177	1,295	1,425
Other expenses	2,576	1,780	2,017	1,529
EBIDTA	5,182	2,382	3,826	4,477
YoY (%)	15.6	(54.0)	60.6	17.0
EBIDTA (%)	17.4	10.3	14.5	15.6
Depreciation	1,681	1,108	1,109	1,118
Other income	282	277	277	277
EBIT	3,783	1,552	2,995	3,637
Interest	1,486	1,474	1,617	1,699
Extraordinary income/(expenses)	0	0	0	0
PBT	2,297	78	1,378	1,938
(-) Tax	611	12	331	465
Tax/ PBT (%)	26.6	14.8	24.0	24.0
PAT	1,686	66	1,047	1,473
YoY (%)	(25.6)	(96.1)	1,479.4	40.6
Adjusted net profit (after MI)	1,686	66	1,047	1,473
YoY (%)	(25.6)	(96.1)	1,479.4	40.6

Balance Sheet				
In ₹ million	FY11 (18 months)	FY12P	FY13E	FY14E
Equity capital & Warrants	256	244	244	244
Reserves	12,637	11,937	12,841	14,100
Net worth	12,894	12,181	13,086	14,344
Total Debt	16,443	17,159	16,359	16,209
Deferred tax	2,853	2,856	2,856	2,856
Total liabilities	32,190	32,196	32,301	33,409
Asset Block	17,160	16,129	15,220	14,302
Investments	36	442	442	442
Deferred tax assets	586	582	582	582
Current assets	20,908	25,505	26,277	28,143
Inventories	14,913	19,978	20,869	22,562
Debtors	899	1,470	1,356	1,509
Cash	1,562	115	109	128
Loans and advances	2,270	2,212	2,212	2,212
Other Current Assets	1,265	1,731	1,731	1,731
Current liabilities	6,514	10,471	10,229	10,069
Creditors	1,006	6,171	5,929	5,769
Provisions	498	132	132	132
Other current liabilities	5,010	4,169	4,169	4,169
Net current assets	14,394	15,034	16,047	18,073
Miscellaneous expenses	14	8	8	8
Total assets	32,190	32,196	32,301	33,409

Key Ratios				
	FY11 (18 months)	FY12	FY13E	FY14E
EPS - Basic (₹)	6.6	0.3	4.3	6.0
EPS - Diluted (₹)	6.6	0.3	4.3	6.0
Adjusted EPS - Diluted(₹)	6.6	0.3	4.3	6.0
CEPS (₹)	13.1	4.8	8.8	10.6
Book value (₹)	50.3	49.9	53.6	58.7
Dividend per share (₹)	0.8	0.0	0.5	0.8
Net LT Debt-Equity (x)*	0.2	0.4	0.3	0.2
Net Debt-Equity(x)	0.9	1.2	1.4	1.2
ROACE (%)*	20.0	9.2	17.8	21.8
ROAE (%)	13.7	0.5	8.3	10.7
Valuations				
PE (x)	9.6	232.1	14.7	10.5
Cash PE (x)	4.8	13.1	7.1	5.9
Price/book value (x)	1.3	1.3	1.2	1.1
Dividend yield (%)	1.2	0.0	0.8	1.2
P/sales	0.5	0.7	0.6	0.5
EV/sales (x)*	0.6	0.9	0.7	0.6
EV/EBITDA (x)*	3.5	8.5	4.9	4.0

Cash Flow				
In ₹ million	FY11E (18 months)	FY12P	FY13E	FY14E
Net profit	1,686	66	1,047	1,473
Depn and w/o	1,681	1,108	1,109	1,118
Change in working cap	8,689	2,087	1,019	2,007
Other income	282	277	277	277
Others	0	0	0	0
Operating cash flow	(5,604)	(1,190)	860	306
Other income	282	277	277	277
Capex	(1,238)	(50)	(200)	(200)
Investments	1,230	(406)	0	0
Others	383.8	(14.2)	0.0	0.0
Investing cash flow	658	(194)	77	77
Dividend	(217)	0	(143)	(214)
Equity	(328)	(779)	0	0
Debt	6,723	716	(800)	(150)
Others	0	0	0	0
Financing cash flow	6,178	(63)	(943)	(364)
Net change in cash	1,232	(1,447)	(6)	19
Opening cash	330	1,562	115	109
Closing cash	1,562	115	109	128

Source: ABML Research, Company data

*Ratios calculated excluding working capital debt.

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Our Rating Methodology

Stock Ratings	Absolute Returns (R)
Buy	$R > 15\%$
Accumulate	$5\% < R \leq 15\%$
Neutral	$-5\% < R \leq 5\%$
Reduce	$-10\% < R \leq 5\%$
Sell	$R \leq -10\%$

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