

November 14, 2011

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Rating	Reduce
Price	Rs45
Target Price	Rs44
Implied Upside	-2.2%
Sensex	17,119

(Prices as on November 14, 2011)

Trading data

Market Cap. (Rs bn)	10.9
Shares o/s (m)	240.9
3M Avg. Daily value (Rs m)	93.3

Major shareholders

Promoters	40.11%
Foreign	18.83%
Domestic Inst.	16.27%
Public & Other	24.79%

Stock Performance

(%)	1M	6M	12M
Absolute	(6.9)	(36.4)	(49.1)
Relative	(7.1)	(28.8)	(34.0)

Price Performance (RIC: BACH.BO, BB: BRCM IN)



Source: Bloomberg

■ **Q2FY12 Result below expectation:** Balrampur Chini Mills' (BRCM') net sales degrew by 1.1% YoY to Rs5.1bn (PLe: Rs5.7bn). Sugar sales volume was 0.16m MT at an average realisation of Rs28.2/kg during Q2FY12 v/s 0.16m tonne in Q2FY11 at an average realisation of Rs28/kg. Alcohol sales volume was 10.2m litres at an average realisation of Rs27.9/litre v/s 13.4m litres at an average realisation of Rs22/litre during Q2FY11. Due to unavailability of bagasse during the off season, power facility witnessed lower utilization and hence, there were no sales of power during the quarter. BRCM's EBITDA stood at Rs191m (PLe: Rs733m). Lower-than-expected EBITDA was primarily on account of lower profitability in alcohol and power business. It was further accelerated by higher raw material cost. Company has shown loss of Rs394m at PAT level during the quarter.

■ **Other Highlights:** BRCM is expected to crush 7.8m MT sugarcane during season 2011-12 v/s 6.8m MT in 2010-11 on account of better sugarcane availability. UP government has increased state administered price of sugarcane from Rs205/quintal in SS11 to Rs240/quintal in SS12. We believe that increased sugarcane price would affect the UP-based sugar mills adversely because Industry/Government expects sugar surplus year during SS12. Hence, we believe that sugar price would be stable, considering government would allow export during SS12.

■ **Downgrade from 'Accumulate' to 'Reduce':** We were cautious on the UP-based mills on account of higher sugarcane prices (refer report India Agri Products dated August 08, 2011). We remain **Underweight** on the sugar sector. We are downward revising BRCM EPS estimates by considering higher sugarcane prices. Hence, we are downgrading stock from '**Accumulate**' to '**Reduce**', with TP of Rs44 (1x FY13E BV).

Key financials (Y/e March)	2010	2011	2012E	2013E
Revenues (Rs m)	17,471	29,724	25,642	24,730
Growth (%)	17.2	70.1	(13.7)	(3.6)
EBITDA (Rs m)	4,472	5,098	2,496	2,475
PAT (Rs m)	2,090	1,627	116	219
EPS (Rs)	8.1	6.3	0.5	0.9
Growth (%)	261.2	(22.0)	(92.4)	89.0
Net DPS (Rs)	3.0	0.7	0.7	0.7

Source: Company Data; PL Research

Profitability & Valuation	2010	2011	2012E	2013E
EBITDA margin (%)	25.6	17.2	9.7	10.0
RoE (%)	19.6	13.4	0.9	1.9
RoCE (%)	12.5	9.4	3.0	3.3
EV / sales (x)	1.2	1.1	1.0	1.0
EV / EBITDA (x)	4.7	6.2	10.8	10.3
PE (x)	5.6	7.2	94.5	50.0
P / BV (x)	1.0	0.9	0.9	0.9
Net dividend yield (%)	6.6	1.6	1.5	1.5

Source: Company Data; PL Research

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**Exhibit 1: Q2FY12 Result Overview (Rs m)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Net Sales	5,070	5,128	(1.1)	5,718	10,788	10,531	2.4
Raw Material Consumed	4,281	4,869	(12.1)	4,739	9,020	9,152	(1.4)
<i>As % of Net Sales</i>	<i>84.4</i>	<i>95.0</i>		<i>82.9</i>	<i>83.6</i>	<i>86.9</i>	
Employee Cost	249	225	10.8	228	477	435	9.8
<i>As % of Net Sales</i>	<i>4.9</i>	<i>4.4</i>		<i>4.0</i>	<i>4.4</i>	<i>4.1</i>	
Other Expenses	349	286	21.8	307	656	555	18.2
<i>As % of Net Sales</i>	<i>6.9</i>	<i>5.6</i>		<i>5.4</i>	<i>6.1</i>	<i>5.3</i>	
Expenditure	4,879	5,380	(9.3)	5,275	10,154	10,142	0.1
PBITDA	191	(252)	NA	443	635	389	63.1
<i>Margin (%)</i>	<i>3.8</i>	<i>(4.9)</i>		<i>7.7</i>	<i>5.9</i>	<i>3.7</i>	
Depreciation	276	292	(5.6)	276	551	572	(3.6)
PBIT	(84)	(544)	NA	167	83	(183)	NA
Interest	315	231	36.7	379	695	478	45.2
Other Income	5	4	32.4	13	18	6	200.0
Profit before tax	(394)	(771)	NA	(199)	(593)	(655)	NA
Tax	-	13		-	-	-	#DIV/0!
<i>Tax Rate (%)</i>	<i>-</i>	<i>(1.6)</i>		<i>-</i>	<i>-</i>	<i>-</i>	
Adjusted PAT	(394)	(783)	NA	(199)	(593)	(655)	NA
Ex-Items	-			-	-	-	
Reported PAT	(394)	(783)	NA	(199)	(593)	(655)	NA

Source: Company Data, PL Research

**Exhibit 2: Segmental Break-up (Rs m)**

Y/e March	Q2FY12	Q2FY11	YoY gr. (%)	Q1FY12	H1FY12	H1FY11	YoY gr. (%)
Revenue							
Sugar	4,701	4,698	0.1	4,706	9,407	9,498	(1.0)
Distillery	290	208	39.7	498	788	504	56.3
Cogeneration	176	429	(59.1)	718	893	951	(6.1)
Organic Manure	1	1	-	5	6	8	(25.0)
Total Sales	5,168	5,336	(3.2)	5,926	11,094	10,961	1.2
Less: Inter-segment Revenue	96	243	(60.4)	207	303	464	(34.7)
Net Sales	5,071	5,093	(0.4)	5,719	10,791	10,497	2.8
EBIT							
Sugar	(30)	195	NA	(173)	(203)	(345)	NA
Distillery	92	66	39.5	160	252	84	200.5
Cogeneration	(36)	186	NA	252	216	190	13.9
Organic Manure	(2)	2	NA	(2)	(4)	(3)	NA
Total	25	448	(94.5)	237	262	(75)	NA
EBIT %							
Sugar	(0.6)	4.1		-3.7	-2.2	-3.6	
Distillery	31.7	31.8		32.1	32.0	16.6	
Cogeneration	(20.4)	43.2		35.1	24.2	20.0	
Overall	0.5	8.8		4.1	2.4	-0.7	

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	2010	2011	2012E	2013E
Net Revenue	17,471	29,724	25,642	24,730
Raw Material Expenses	10,640	20,330	20,434	19,406
Gross Profit	6,831	9,394	5,208	5,323
Employee Cost	946	1,588	1,088	1,143
Other Expenses	1,413	2,708	1,625	1,706
EBITDA	4,472	5,098	2,496	2,475
Depr. & Amortization	1,160	1,731	1,153	1,164
Net Interest	1,068	1,384	1,232	1,057
Other Income	82	260	50	50
Profit before Tax	2,326	2,243	161	304
Total Tax	231	616	45	85
Profit after Tax	2,095	1,627	116	219
Ex-Od items / Min. Int.	4	—	—	—
Adj. PAT	2,090	1,627	116	219
Avg. Shares O/S (m)	256.8	256.3	240.9	240.9
EPS (Rs.)	8.1	6.3	0.5	0.9

Cash Flow Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
C/F from Operations	5,237	(9,641)	4,024	1,781
C/F from Investing	(1,230)	(692)	1,040	(250)
C/F from Financing	(4,032)	10,336	(3,794)	(2,697)
Inc. / Dec. in Cash	(25)	3	1,270	(1,166)
Opening Cash	210	185	188	1,457
Closing Cash	185	188	1,457	291
FCFF	5,229	(10,126)	3,774	1,531
FCFE	1,331	66	1,274	(969)

Key Financial Metrics

Y/e March	2010	2011	2012E	2013E
Growth				
Revenue (%)	17.2	70.1	(13.7)	(3.6)
EBITDA (%)	42.4	14.0	(51.0)	(0.8)
PAT (%)	166.9	(22.2)	(92.9)	89.0
EPS (%)	261.2	(22.0)	(92.4)	89.0
Profitability				
EBITDA Margin (%)	25.6	17.2	9.7	10.0
PAT Margin (%)	12.0	5.5	0.5	0.9
RoCE (%)	12.5	9.4	3.0	3.3
RoE (%)	19.6	13.4	0.9	1.9
Balance Sheet				
Net Debt : Equity	0.8	1.5	1.4	1.2
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	5.6	7.2	94.5	50.0
P / B (x)	1.0	0.9	0.9	0.9
EV / EBITDA (x)	4.7	6.2	10.8	10.3
EV / Sales (x)	1.2	1.1	1.0	1.0
Earnings Quality				
Eff. Tax Rate	9.9	27.5	28.0	28.0
Other Inc / PBT	3.5	11.6	31.1	16.5
Eff. Depr. Rate (%)	4.7	6.8	4.5	4.5
FCFE / PAT	63.7	4.1	1,100.7	(443.2)

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2010	2011	2012E	2013E
Shareholder's Funds	11,338	12,894	11,715	11,737
Total Debt	9,906	20,098	17,598	15,098
Other Liabilities	—	—	—	—
Total Liabilities	21,244	32,991	29,313	26,834
Net Fixed Assets	18,311	17,229	16,265	15,350
Goodwill	—	—	—	—
Investments	1,222	1,265	36	36
Net Current Assets	3,744	16,746	15,261	13,696
<i>Cash & Equivalents</i>	<i>342</i>	<i>344</i>	<i>1,614</i>	<i>448</i>
<i>Other Current Assets</i>	<i>6,082</i>	<i>19,311</i>	<i>16,847</i>	<i>16,770</i>
<i>Current Liabilities</i>	<i>2,679</i>	<i>2,910</i>	<i>3,201</i>	<i>3,521</i>
Other Assets	(2,033)	(2,248)	(2,248)	(2,248)
Total Assets	21,244	32,991	29,313	26,834

Quarterly Financials (Rs m)

Y/e March	Q5FY11	Q6FY11	Q1FY12	Q2FY12
Net Revenue	5,315	4,693	5,718	5,070
EBITDA	724	2,059	443	192
<i>% of revenue</i>	<i>13.6</i>	<i>43.9</i>	<i>7.7</i>	<i>3.8</i>
Depr. & Amortization	281	270	276	276
Net Interest	174	303	379	315
Other Income	10	5	13	5
Profit before Tax	279	1,491	(199)	(394)
Total Tax	45	363	0	0
Profit after Tax	234	1,130	(199)	(394)
Adj. PAT	234	1,130	(199)	(394)

Key Operating Metrics

Y/e March	2010	2011	2012E	2013E
Sugar Sale (M MT)	0.7	0.7	0.8	0.8
Average Realization (Rs/Kg)	21.7	29.7	27.5	27.4
Alcohol Sale (M Litres)	50.7	64.0	79.5	79.0
Average Realization (Rs/Litre)	25.8	25.7	27.0	27.0
Power Sale (M Units)	357.7	711.1	450.0	450.0
Average Realization (Rs/Unit)	3.5	4.2	4.2	4.2

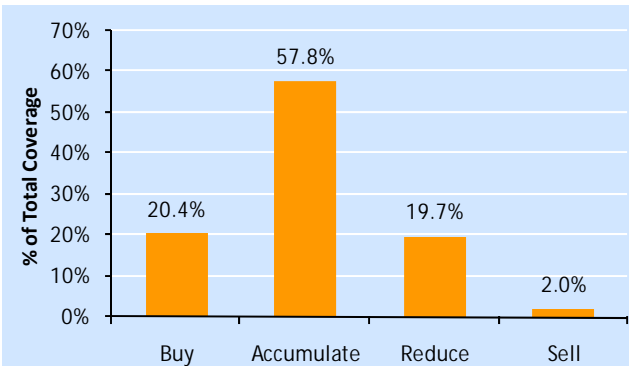
Source: Company Data, PL Research.

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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