

Balrampur Chini Mills

Performance Highlights

Parameters (₹ cr)	5QFY2011	1QFY2011	% yoy	4QFY2011	% qoq
Total revenue	532	439	21	513	4
EBITDA	72	132	(45)	(25)	-
EBITDA margin (%)	14	30		(5)	-
PAT	23	77	(69)	(78)	-

Source: Company, Angel Research

Balrampur Chini Mills (BRCM) reported a poor performance for 5QSY2011 due to increased cane cost and lower sugar realisation. Total sales grew by 21% to ₹532cr in 5QFY2011, while PAT declined by 69% to ₹23cr. We are introducing FY2012 estimates and rolling forward valuation on the same. At current levels, the stock is trading at fair valuations; hence, **we remain Neutral on the stock.**

High raw-material cost and low sugar realisation impact margin: Gross margin declined by 1,680bp to 27% in 5QFY2011 from 44% in 1QFY2011 due to increased cane cost and lower realisation. BRCM incurred cost of ₹2,160/tonne of cane in 5QFY2011. Further, realisation during the quarter stood at ₹28.7/kg compared to ₹32.3/kg.

Outlook and valuation: Going ahead, we expect sugar prices to remain at ₹28–30/kg. Domestic ex-mill prices have corrected from the highs of ₹42/kg to ₹28–29/kg, while the cost of inventory is at ₹28/kg. However, due to declaration of SAP by the UP government, margins in the sugar business are likely to be under pressure. At current levels, the stock is trading at fair valuations of 1.2x P/B and 1.1x enterprise value/invested capital on SY2012 estimates. Hence, we maintain our Neutral view on the stock.

Key financials (Consolidated)

Y/E Sept (₹ cr)	SY2009	SY2010E	SY2011E	SY2012E
Net sales	1,747	1,987	2,406	2,254
% chg	17.2	13.7	21.1	(6.3)
Net profit	186.1	28.3	143.2	219.9
% chg	123.7	(84.8)	406.5	53.6
EBITDA (%)	25.6	12.5	16.1	20.7
EPS (₹)	7.2	1.1	5.5	8.5
P/E (x)	9.6	63.6	12.6	8.2
P/BV (x)	1.6	1.5	1.4	1.2
RoE (%)	17.4	2.4	11.4	15.9
RoCE (%)	13.2	5.6	11.1	15.1
EV/Sales (x)	1.5	1.4	1.1	1.0
EV/EBITDA (x)	5.8	11.4	6.7	4.7
EV/IC (x)	1.2	1.2	1.1	1.1

Source: Company, Angel Research

NEUTRAL

CMP	₹69
Target Price	-

Investment Period	-
-------------------	---

Stock Info

Sector	Sugar
Market Cap (₹ cr)	1,885
Beta	1.1
52 Week High / Low	122/67
Avg. Daily Volume	550181
Face Value (₹)	1
BSE Sensex	17,776
Nifty	5,313
Reuters Code	BACH.BO
Bloomberg Code	BRCM@IN

Shareholding Pattern (%)

Promoters	37.8
MF / Banks / Indian Fls	15.9
FII / NRIs / OCBs	25.3
Indian Public / Others	21.1

Abs. (%)	3m	1yr	3yr
Sensex	7.7	11.5	1.8
BRCM	(53.1)	(41.3)	(18.0)

Sageraj Bariya

+91-22-3935 7800 ext. 6815
 sageraj.bariya@angelbroking.com

Exhibit 1: Quarterly performance

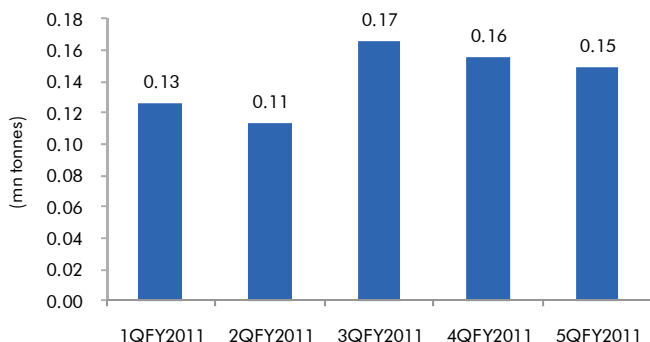
Y/E Sept (₹ cr)	5QFY2011	1QFY2011	% chg	15mFY2011	SY2009	% chg
Net Sales	531	434	22	2,481	1,700	46
Other Op Income	1	6		14	5	
Total Revenue	532	439	21	2,495	1,705	46
Consumption of RM	390	248		1,861	1,027	
(% of Sales)	73	56		75	60	
Gross Profit	142	191	(26)	634	678	(6)
Gross margin (%)	27	44	(1,680)	25	40	
Staff Costs	26	24		122	90	
(% of Sales)	5	5		5	5	
Other Expenses	44	36		187	135	
(% of Sales)	8	8		8	8	
Total Expenditure	459	308		2,170	1,252	
as % of sales	86	70		87	73	
EBITDA	72	132	(45)	324	453	(28)
EBITDA (%)	14	30		13	27	
Depreciation	28	27		139	108	
EBIT	44	105		186	345	
EBIT (%)	8	24		7	20	
Other Income	1	2		4	2	
Interest	17	17		104	97	
PBT (excl. Extr. Items)	28	89		86	250	
Extr. Income/(Expense)	0	0		0		
PBT (incl. Extr. Items)	28	89		86	250	
Provision for Taxation	4	13		25	23	
(% of PBT)	16	14		30	9	
Reported PAT	23	77	(69)	60	227	(73)
NPM (%)	4	17		2	13	
Minority & Others	0	0		0		
Adj PAT	23	77	(69)	60	227	(73)
Adj NPM (%)	4	17		2	13	
Equity capital (₹ cr)	26	26		26	26	
EPS (₹)	1	3		2	9	
Adj EPS (₹)	1	3		2	9	

Source: Company, Angel Research

Growth across segments

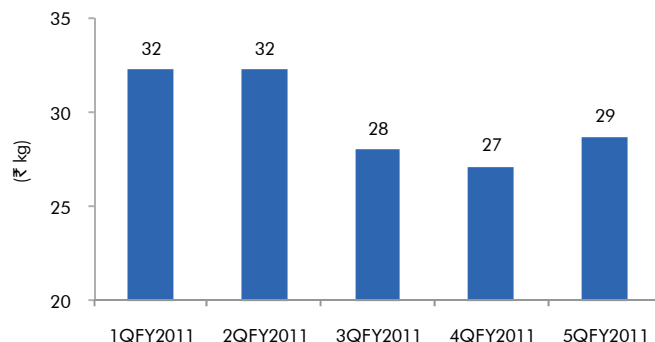
BRCM posted net sales of ₹532cr in 5QFY2011 as against ₹439cr in 1QFY2011. Strong top-line growth came on the back of higher volumes reported by the distillery and power divisions. Sugar volumes for the quarter increased by 18% to 0.15mn tonnes, the distillery division posted sales of 4.97mn litres against 3.56mn litres in 1QFY2011, and the power (cogen) division witnessed a 35% increase in sales to 113mn units.

Exhibit 2: Sugar volume trend



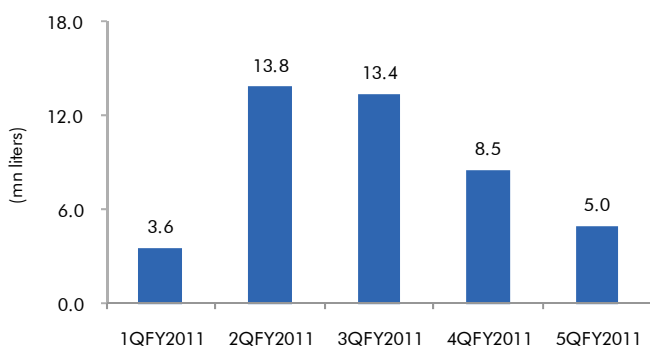
Source: Company, Angel Research

Exhibit 3: Sugar realisation trend



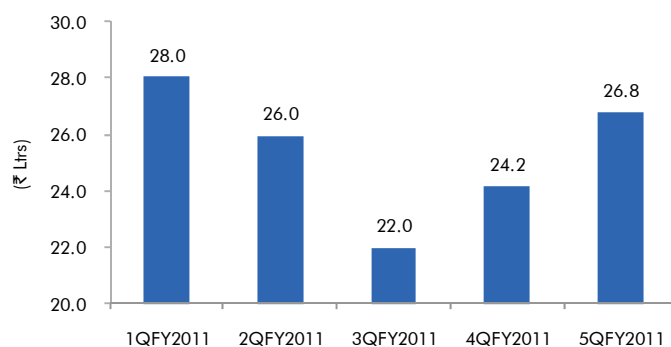
Source: Company, Angel Research

Exhibit 4: Distillery volume trend



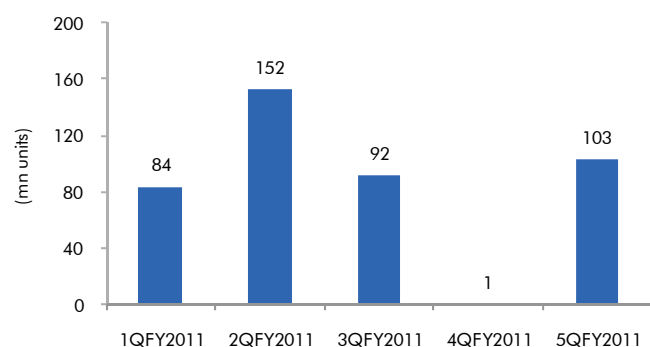
Source: Company, Angel Research

Exhibit 5: Distillery realisation trend



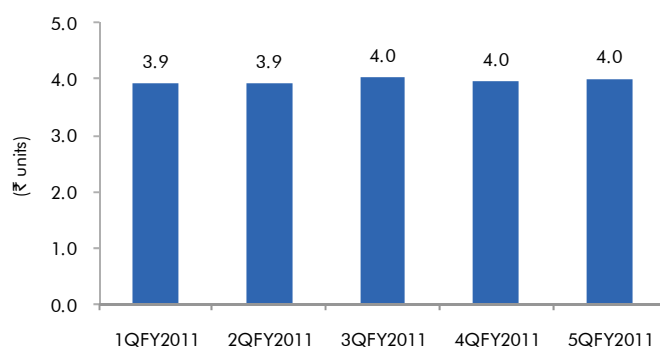
Source: Company, Angel Research

Exhibit 6: Cogen volume trend – Bagasses



Source: Company, Angel Research

Exhibit 7: Cogen realisation trend – Bagasses



Source: Company, Angel Research

High raw-material costs and contribution of levy sales impact margins: BRCM's gross margin fell substantially by 1,680bp to 27% in 5QSY2011 from 44% in 1QFY2011. Margins were hit by increased cane costs, higher contribution of levy sales and lower sugar realisation. The company incurred ₹2,160/tonne of cane in 5QSY2011. During the quarter, levy sugar was sold at a fixed price of ₹18/kg (revised price), which led to a loss of ~₹6/kg for the company. Lower sugar realisation of ₹29 during the quarter also contributed to reduction of gross margins.

Exhibit 8: Segment-wise performance

Y/E Sept (₹ cr)	5QFY2011	1QFY2011	% chg	15mFY2011	SY2009	% chg
Revenue						
Sugar	493	407	21	2,269	1,510	50
Cogeneration	72	51	41	311	183	70
Distillery	14	10	37	110	131	(16)
Organic manure	1	1	37	3	3	29
Total revenue	579	468	24	0	1,827	(100)
PBIT						
Sugar	25	86	(71)	84	249	(66)
Cogeneration	24	24	(0)	109	80	35
Distillery	1	1	(1)	24	50	(51)
Organic manure	(0)	(0)	(37)	1	(1)	(165)
Total PBIT	50	112	(55)	0	379	(100)
PBIT margin						
Sugar	5	21		4	17	
Cogeneration	34	48		35	44	
Distillery	9	13		22	38	

Source: Company, Angel Research

Exhibit 9: Quantitative data

Y/E Sept (₹ cr)	5QFY2011	1QFY2011	% chg
Cane crushed (mn tonnes)	2.02	1.82	11
Production			
Cane based - Sugar (mn tonnes)	0.18	0.16	12
Imported raw - sugar (mn tonnes)	0.00	0.00	-
Distillery (mn litres)	7.62	2.19	248
Power (mn units)	160.09	123.56	30
Sales			
Sugar (mn tonnes)	0.15	0.13	18
Distillery (mn litres)	4.97	3.56	40
Bagasse Power (mn units)	102.95	83.61	23
Coal Power (mn units)	10.29	0.00	-
Total Power (mn units)	113.24	83.61	35
Realisation			
Sugar (₹/kg)	28.70	32.26	(11)
Distillery (₹/litre)	26.79	28.03	(4)
Bagasses power (₹/unit)	4.01	3.93	2
Coal Power (₹/unit)	4.94	0.00	-

Source: Company, Angel Research

Investment arguments

Domestic sugar supply easing

India's sugar production is estimated to increase by 40% to 26mn tonnes in SY2011 as against 18.5mn tonnes in SY2010 on account of higher drawal rate of 78% (65%), as mills offer higher compensation to farmers compared to the unorganised sector. Cane realisations for farmers in the current rally increased by 73% to ₹2,600/tonne in SY2010; while in the previous rally, they moved up by 18% in SY2004, 7% in SY2005 and 10% in SY2006. In anticipation of this positive trend extending, a large number of farmers switch over to cane cultivation resulting in the area under cane cultivation touching 4.9mn–5mn ha in SY2011. On the back of crop economics, we do not see any significant shift towards any other crop and, hence, expect farmers to continue sugarcane plantations in SY2012.

We expect the area under cane cultivation to remain steady at 5mn ha. Further, with yield of 68 tonnes/ha and drawal rate of 75%, we expect the country to produce 25.8mn tonnes of sugar in SY2012. With opening inventory in access of 6mn tonnes and consumption at 24mn tonnes, closing inventory at the end of SY2012 would stand at 8mn tonnes or equivalent to four months of consumption.

Exhibit 10: Sugar cane and sugar production estimates

Sugarcane production	SY2005	SY2006	SY2007	SY2008	SY2009	SY2010E	SY2011E	SY2012E
Area under cane (mn ha)	3.7	4.2	5.2	5.0	4.4	4.3	5.0	5.0
% yoy	(7)	15	23	(3)	(12)	(3)	18	0
Cane production (mn tonnes)	237	281	356	341	272	293	330	340
Yield per ha (tonnes)	65	67	69	68	62	69	66	68
Drawal (%)	53	67	78	73	53	65	78	75
Total cane crushed (mn tonnes)	125	189	279	250	145	191	257	255
Sugar production (mn tonnes)	13	19	28	26	15	19	26	26
Avg. recovery (%)	10	10	10	11	10	10	10	10
mn tonnes								
Opening stock	8.2	4.5	3.4	9.8	8.1	4.4	4.4	6.3
Production	12.7	19.3	28.3	26.3	14.6	18.5	26.0	25.8
Domestic consumption	18.5	19.3	20.2	22.5	22.5	23.1	23.6	24.2
% yoy	3.4	4.3	4.7	11.4	0.0	2.5	2.5	2.5
Exports	0	1	2	5	0	0	1	0
Imports	2	0	0	0	4	5	0	0
Closing stock	5	3	10	9	4	4	6	8
Closing stock (Months)	3	2	6	5	2	2	3	4
Stock-to-use ratio	24	18	49	39	20	19	27	32

Source: Company, Angel Research, Bloomberg

Power segment to cushion profit decline during the down cycle

BRCM's diversified revenue stream is led by external co-generation power sales. The company entered the power segment in 2003, much ahead of competitors such as Bajaj Hindustan (BJH), which entered the segment in SY2008. While BRCM has total installed capacity of 180MW, with saleable surplus of 126MW (70% of total installed capacity), BJH has installed capacity of 428MW with saleable surplus of 105MW (25% of total installed capacity). Over the long term, BRCM has added advantage compared to its peers that would help protect its profitability during the down cycle in sugar.

SY2011 to be better than SY2010

In SY2010, the sugar industry witnessed extreme sugar prices, both at the higher and lower end. Thus, we believe SY2011 would be a recovery phase for the industry. Mill operators are likely to be more rational while deciding cane prices. Cane prices are likely to be in the current SAP range of ₹2,050–2,150/tonne, while sugar prices are likely to remain at ₹28–30/kg. Going forward, we expect integrated players such as BRCM to benefit as higher cane availability and lower cane prices would lead to higher utilisation levels (61%) and power revenue would receive a substantial leg up due to higher cane crushing. Overall, we expect BRCM's financials to improve strongly in SY2011, with RoE improving to 15.9% in SY2012 from 2.4% in SY2010.

Outlook and valuation

Going ahead, sugar prices are likely to be under pressure because of higher-than-estimated sugar production in India and Brazil. Hence, sugar demand-supply would achieve a balance in SY2011, resulting in further softening of prices. Domestic ex-mill prices have corrected from the highs of ₹42/kg to ₹28–29/kg, while inventory is at ~₹28/kg.

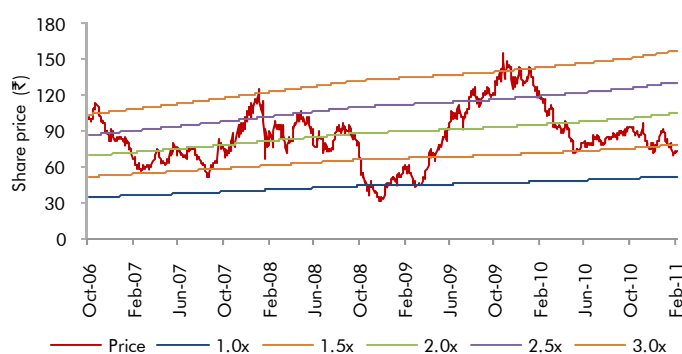
We are introducing our SY2012 numbers and rolling forward our valuation on the same. At the current level of ₹69, the stock is trading close to its fair valuations of 1.2x P/BV and 1.1x enterprise value/invested capital on SY2011 estimates. **Hence, we maintain our Neutral view on the stock.**

Exhibit 11: Key assumptions

	SY2011E	SY2012E
Capacity (TCD)	73,500	73,500
Utilisation (%)	60.8	60.8
No. of days	91.2	91.2
Cane crushed (mn tonnes)	6.7	6.7
Recovery rate (%)	10%	10%
Sugar produced (tonnes)	656,914	670,320
Sugar sales (tonnes)	719,798	670,320
Levy realisation (₹/kg)	18.0	18.0
Free sale realisation (₹/kg)	29.0	28.8
Blended realisation – Net (₹/kg)	28	28
Cost per tonne of cane (₹/tonne)	2,200.0	2,400.0
Refinery based sugar (tonnes)	0.0	0.0
Realisation (₹/kg)	29.0	28.8
Alcohol sold (mn kl)	63.7	63.7
Realisation per litre	27.0	28.0
Cogen units – Surplus (mn units)	547.7	547.7
Realisation per unit	4.0	4.0

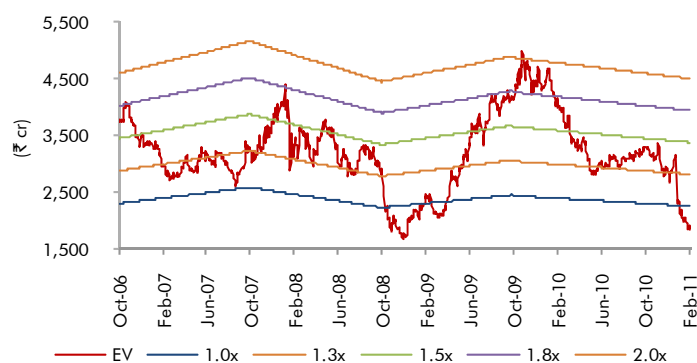
Source: Company, Angel Research

Exhibit 12: One-year forward P/B



Source: C-line, Angel Research

Exhibit 13: One-year forward EV/IC



Source: C-line, Angel Research

Profit & loss statement (Consolidated)

Y/E Sept.	SY07	SY08	SY09	SY10	SY11E	SY12E
Total operating income	1,395	1,491	1,747	1,987	2,406	2,254
% chg	(26.5)	6.9	17.2	13.7	21.1	(6.3)
Total Expenditure	1,316	1,177	1,300	1,737	2,018	1,787
Net Raw Materials	1,071	906	1,064	1,491	1,729	1,517
Other Mfg costs	4	6	-	-	-	-
Personnel	74	86	100	99	120	113
Other	167	179	136	147	168	158
EBITDA	79	314	447	249	388	467
% chg	(82.8)	296.8	42.4	(44.3)	55.7	20.2
(% of Net Sales)	5.7	21.1	25.6	12.5	16.1	20.7
Depreciation & Amortisation	88	125	116	113	114	116
EBIT	(9)	189	331	136	274	351
% chg	-	-	75.4	(58.8)	101.0	28.0
(% of Net Sales)	-	12.7	19.0	6.9	11.4	15.6
Interest & other Charges	64	101	107	91	87	61
Other Income	16	16	8	3	4	3
(% of PBT)	-	15.5	3.5	6.7	2.1	1.2
Recurring PBT	(57)	104	233	49	191	293
% chg	-	-	123.7	(78.9)	289.1	53.6
Extraordinary Expense/(Inc.)	-	-	-	-	-	-
PBT (reported)	(57)	104	233	49	191	293
Tax	(6)	26	23	21	48	73
(% of PBT)	11.4	24.7	9.9	42.4	25.0	25.0
PAT (reported)	(51)	78	209	28	143	220
Add: Share of earnings of associate						
Less: Minority interest (MI)	-	-	-	-	-	-
Prior period items						
PAT after MI (reported)	(51)	78	209	28	143	220
ADJ. PAT	(46)	83	186	28	143	220
% chg	-	-	123.7	(84.8)	406.5	53.6
(% of Net Sales)	-	5.5	10.6	1.4	5.9	9.7
Basic EPS (₹)	-	3.3	7.2	1.1	5.5	8.5
Fully Diluted EPS (₹)	-	3.3	7.2	1.1	5.5	8.5
% chg	-	-	122.6	(85.0)	406.5	53.6

Balance sheet (Consolidated)

Y/E Sept	SY07	SY08	SY09	SY10	SY11E	SY12E
SOURCES OF FUNDS						
Equity Share Capital	25	26	26	26	26	26
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	834	975	1,108	1,180	1,278	1,437
Shareholders' Funds	859	1,001	1,134	1,206	1,304	1,463
Minority Interest	-	-	-	-	-	-
Total Loans	1,289	1,380	991	1,096	953	543
Deferred Tax Liability	171	242	262	196	126	126
Total Liabilities	2,320	2,623	2,386	2,498	2,383	2,133
APPLICATION OF FUNDS						
Gross Block	2,082	2,488	2,491	2,511	2,561	2,587
Less: Acc. Depreciation	428	552	668	780	895	1,010
Net Block	1,654	1,936	1,823	1,730	1,666	1,576
Capital Work-in-Progress	334	8	8	47	47	47
Goodwill						
Investments	1	2	122	44	44	44
Current Assets	680	837	642	884	861	771
Cash	18	37	34	15	37	48
Loans & Advances	175	165	240	340	198	186
Other	487	636	368	529	626	536
Current liabilities	401	261	268	265	293	363
Net Current Assets	280	576	374	619	568	408
Mis. Exp. not written off	51	101	58	58	58	58
Total Assets	2,320	2,623	2,386	2,498	2,383	2,132

Cash flow (Consolidated)

Y/E Sept	SY07	SY08	SY09	SY10	SY11E	SY12E
Profit before tax	(35)	104	233	49	191	293
Depreciation	80	125	116	113	114	116
Change in Working Capital	19	(175)	355	(104)	206	217
Less: Other income						
Direct taxes paid	34	(13)	(40)	(21)	(48)	(73)
Cash Flow from Operations	98	41	664	37	463	553
(Inc.)/ Dec. in Fixed Assets	(669)	(83)	(9)	(60)	(50)	(26)
(Inc.)/ Dec. in Investments	(70)	1	(25)	79	-	-
Inc./ (Dec.) in loans and advances						
Other income						
Cash Flow from Investing	(738)	(82)	(34)	19	(50)	(26)
Issue of Equity	-	77	5	0	-	-
Inc./ (Dec.) in loans	876	87	(390)	105	(142)	(410)
Dividend Paid (Incl. Tax)	(42)	-	(15)	(90)	(91)	(46)
Others	(58)	(105)	(111)	(91)	(87)	(61)
Cash Flow from Financing	776	59	(510)	(75)	(321)	(516)
Inc./ (Dec.) in Cash	135	19	120	(20)	92	11
Opening Cash balances	16	15	34	34	15	107
Closing Cash balances	151	34	154	15	107	118

Key ratios

Y/E Sept	SY07	SY08	SY09	SY10	SY11E	SY12E
Valuation Ratio (x)						
P/E (on FDEPS)	-	21.3	9.6	63.6	12.6	8.2
P/CEPS	40.9	8.5	5.9	12.7	7.0	5.4
P/BV	2.0	1.8	1.6	1.5	1.4	1.2
Dividend yield (%)	-	0.7	4.3	4.3	2.2	2.9
EV/Sales	2.1	2.1	1.5	1.4	1.1	1.0
EV/EBITDA	37.8	9.9	5.8	11.4	6.7	4.7
EV / Total Assets	1.3	1.2	1.1	1.1	1.1	1.0
EV / IC	1.3	1.2	1.2	1.2	1.1	1.1
Per Share Data (₹)						
EPS (Basic)	-	3.3	7.2	1.1	5.5	8.5
EPS (fully diluted)	-	3.3	7.2	1.1	5.5	8.5
Cash EPS	1.7	8.2	11.8	5.4	9.9	12.9
DPS	-	0.5	3.0	3.0	1.5	2.0
Book Value	34.6	39.2	44.2	46.5	50.3	56.4
Dupont Analysis						
EBIT margin	(0.6)	12.7	19.0	6.9	11.4	15.6
Tax retention ratio	88.6	75.3	90.1	57.6	75.0	75.0
Asset turnover (x)	0.7	0.6	0.7	0.9	1.0	1.0
ROIC (Post-tax)	-	5.8	12.4	3.4	8.7	12.1
Cost of Debt (Post Tax)	6.2	5.7	8.1	5.0	6.4	6.1
Leverage (x)	1.0	1.3	1.0	0.8	0.7	0.4
Operating ROE	-	6.0	16.5	2.1	10.3	14.5
Returns (%)						
ROCE (Pre-tax)	-	7.6	13.2	5.6	11.1	15.1
Angel ROIC (Pre-tax)	-	8.3	13.8	5.9	11.8	16.5
ROE	-	8.9	17.4	2.4	11.4	15.9
Turnover ratios (x)						
Asset Turnover (Gross Block)	0.8	0.7	0.7	0.8	0.9	0.9
Inventory / Sales (days)	84	125	98	75	95	75
Receivables (days)	12	13	4	12	9	9
Payables (days)	69	80	49	34	45	55
Working capital cycle (ex-cash) (days)	81	116	111	106	99	83
Solvency ratios (x)						
Net debt to equity	1.5	1.3	0.7	0.9	0.6	0.3
Net debt to EBITDA	16.1	4.3	1.9	4.2	2.1	0.8
Interest Coverage (EBIT / Interest)	(0.1)	1.9	3.1	1.5	3.1	5.7

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies 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. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Balrampur Chini
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
---------------------------	------------------------------------	---	--------------------