

Balrampur Chini | BUY

Green is the new colour!

After significant capex in the ethanol segment in the past 3 years (substitute of gasoline), BRCM has announced a foray into the manufacture of polylactic Acid (PLA), also known as 'bio-plastic' with forward integration (conversion of sugar into PLA). The company will invest INR 20bn (INR 8bn equity from internal accruals; INR 12bn debt mix) over a period of 2.5 years. This new venture, with a capacity of 75k tpa, will be India's first ever bio-plastic plant on a global scale. The new plant will be a greenfield unit next to the existing sugar capacity, enabling BRCM to be a low-cost producer (saving on transportation and power). The company has started building a strong team and has appointed senior management personnel with rich experience in the global bio-plastic industry. PLA presents an opportunity arising from the circular economy (shifting to bio-based degradable polymers from fossil-based polymers). BRCM's new endeavour is in line with the government's commitment for Net Zero by 2070 and may entail subsidies from the Centre as well as the UP government (announced during Budget'24). We believe this is a step in the right direction given that the company is de-risking itself from government-regulated business (sugar, ethanol). As financial details pertaining to pricing/margins/RoCE have not been disclosed yet (likely over the next 4-6 months), we have not factored in this investment in our estimates. Given the strong cash flows, we believe the company can comfortably fund this foray without significant stress on the balance sheet. We maintain BUY and arrive at Mar'25TP of INR 500 (basis 15x FY26EPS) and believe the current weakness can be an opportunity to accumulate.

- Foray into bio-plastics:** In a step towards forward integration as well as business diversification, BRCM has announced that it will invest INR 20bn in the manufacture of polylactic Acid (PLA), a bio-polymer used in making bio-plastic (degradable plastics). The company will invest in phases over a period of 2.5 years to build a capacity of global scale (75,000 tpa). To lead the new business, the management has appointed senior management personnel with a rich global experience in the bio-plastic industry. Further, the new venture will be facilitated by Konkan Specialty (Konspec), where BRCM holds a minority stake, for combining compounds (PLA with other bio-polymers such as PHA), creating master-batches and recipes.
- Greenfield capacity next to existing sugar plant:** BRCM's PLA plant, with a capacity of 75,000 tpa, will be India's first bio-plastic plant on a global scale. There are limited number of PLA producers globally (total capacity of 400ktpa), and only a few with full integration from bio-based raw material (raw sugar or starch) to PLA. The management highlighted that c. 110,000tn of raw sugar is required to produce 75,000tn of PLA. The new plant will be located on a greenfield site next to BRCM's existing sugar plants. Hence, the company expects cost of production to be lower due to savings on transportation cost of raw material coupled with lower energy (as it will utilise captive bagasse).
- The PLA opportunity:** At present, global PLA consumption is c. 300-400k tpa while plastic consumption is 400mn tpa. Globally, plastic consumption is gradually shifting to bio-



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	500
Upside/(Downside)	31.3%
Previous Price Target	500
Change	0.0%

Key Data – BRCM IN

Current Market Price	INR381
Market cap (bn)	INR76.9/US\$0.9
Free Float	57%
Shares in issue (mn)	201.7
Diluted share (mn)	201.7
3-mon avg daily val (mn)	INR1,367.6/US\$16.5
52-week range	486/349
Sensex/Nifty	72,623/22,055
INR/US\$	83.0

Price Performance

%	1M	6M	12M
Absolute	-0.5	-2.2	1.6
Relative*	-2.2	-12.1	-15.1

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	48,460	46,659	55,617	62,286	71,448
Sales Growth (%)	0.7	-3.7	19.2	12.0	14.7
EBITDA	7,500	5,785	7,018	9,093	10,684
EBITDA Margin (%)	15.5	12.4	12.6	14.6	15.0
Adjusted Net Profit	4,882	3,276	3,851	5,259	6,667
Diluted EPS (INR)	23.9	16.2	19.1	26.1	33.0
Diluted EPS Growth (%)	1.8	-32.1	17.6	36.6	26.8
ROIC (%)	13.4	7.9	8.3	11.2	14.2
ROE (%)	18.3	11.6	13.4	18.1	22.1
P/E (x)	15.9	23.5	20.0	14.6	11.5
P/B (x)	2.8	2.7	2.7	2.6	2.5
EV/EBITDA (x)	11.9	16.5	14.0	10.8	8.7
Dividend Yield (%)	0.7	0.7	5.2	5.8	6.6

Source: Company data, JM Financial. Note: Valuations as of 21/Feb/2024

JM Financial Institutional Securities Limited

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based plastics; Europe is expected to shift to 30% bio-based plastics. In India, consumption of single use plastic (SUP) is c. 5mn tpa (as on 2021), of which the company expects half to be replaced by PLA. As of Jul'22, Plastic Waste Management (PWM) - 2021 prohibits use of 19 SUP items for consumption; however, progress is hindered due to the absence of alternatives. With PLA capacity coming in, consumption of SUP is expected to shift to PLA. Consumption of PLA has already started gaining traction without any government push or any regulation. Renowned brands such as Starbucks, Costa coffee, Amul, etc. have incorporated PLA for items like straws, cups, stirrers and lining for paper cups. In the textile industry, major players like Aditya Birla are leveraging PLA compounds for garment packaging. Notably, the Defence Research and Development Organisation (DRDO) has recently adopted PLA for water bottles.

- **Diverse applications:** PLA is the best material for 3D printing, and is the most-sought-after chemical for medical devices. PLA can be used in three major forms – neat, compound and master-batches. For instance, it can be further combined with materials such as PHA (polyhydroxyalkanoates), which is another biopolymer for making the material more degradable (at lower temperature). Konspec will manufacture compounds, recipes and master-batches from PLA for BRCM.
- **Maintain BUY with Mar'25TP of INR 500:** Hypothetically, we estimate this project can generate NPV of INR 20bn (DCF-based estimation). However, we have not factored in these investments into our estimates as critical financial details pertaining to pricing/margins/RoCE have not been disclosed yet (likely over the next 4-6 months). Having said that, we think this is a step in the right direction and also believe that the company can comfortably fund this foray without any significant stress on the balance sheet. We maintain BUY with unchanged Mar'25TP of INR 500 (basis 15x FY26EPS) and believe the current weakness can be an opportunity to accumulate.

Exhibit 1. Global PLA capacities

Company	Announced	Location	Capacity (ton)	Project cost (INR mn)	INR/ ton
Balrampur Chini	Feb-24	India	75,000	20,000	266,667
NatureWorks	NA	USA	150,000	NA	NA
NatureWorks (under construction)	May-21	Thailand	75,000	37,078	494,377
TotalEnergies-Corbion	Sep-20	Thailand	100,000	17,088	170,880
Futerra	NA	China	100,000	NA	NA

Source: Company, JM Financial

Exhibit 2. Comparison between conventional and bio-plastics

	Bio-plastic	Conventional Plastic
Polymers	Polylactic Acid (PLA), Polyhydroxyalkanoates (PHA), Polybutylene Adipate Terephthalate (PBAT)	PE (Polyethylene), PET (Polyethene Terephthalate), PP (Polypropylene), Polystyrene (PS)
Raw material	Raw sugar, maize, starch, agri waste	Fossil fuels
Degradation	Composting by industrial compost facilities over 60 degree C	Landfill or incineration
Circularity	Circular (recyclable and bio-degradable)	Linear (single use)
Price range (INR/kg)	200-250	100-125

Source: Company, JM Financial

Exhibit 3. PLA applications – cups



Source: Media, JM Financial

Exhibit 4. Bio-degradable bottles from PLA launched by DRDO



Source: Media, JM Financial

- Government's initiatives for a cleaner, greener future to aid use of bio-plastics:** The Ministry of Environment, Forest, and Climate change, Government of India, has taken some resolute steps to mitigate pollution caused by littered Single Use Plastics (SUP). The government has banned the use of 19 SUP products under the Plastic Waste Management Amendment Rules, 2021. The rules also prohibit manufacture, import, stocking, distribution, sale and use of plastic carry bags having thickness less than 120microns. In addition, the government has notified the guidelines on Extended Producers Responsibility (EPR) on plastic packaging. EPR is the responsibility of a producer for the environmentally sound management of the product until the end of its life. The guidelines provide a framework to strengthen the circular economy of plastic packaging waste, and promote development of new alternatives to plastic packaging.

Exhibit 5. List of 19 SUPs banned under Plastic Waste Management Amendment Rules

Sr no.	Items
1	Ear buds with plastic sticks
2	Plastic sticks for balloons
3	Plastic flags
4	Candy sticks
5	Ice- cream sticks
6	Polystyrene (Thermocol) for decoration
7	Plastic plates
8	Cups
9	Glasses
10	Forks
11	spoons
12	knives
13	Straws
14	Trays
15	Wrapping
16	Packing films around sweet boxes
17	Packing films around invitation cards
18	Packing films around cigarette packets
19	Plastic or PVC banners (<100 microns)

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	48,460	46,659	55,617	62,286	71,448	
Sales Growth	0.7%	-3.7%	19.2%	12.0%	14.7%	
Other Operating Income	0	0	0	0	0	
Total Revenue	48,460	46,659	55,617	62,286	71,448	
Cost of Goods Sold/Op. Exp	34,561	34,092	39,888	44,047	50,846	
Personnel Cost	3,078	3,638	4,111	4,522	4,974	
Other Expenses	3,320	3,143	4,600	4,624	4,944	
EBITDA	7,500	5,785	7,018	9,093	10,684	
EBITDA Margin	15.5%	12.4%	12.6%	14.6%	15.0%	
EBITDA Growth	-0.6%	-22.9%	21.3%	29.6%	17.5%	
Depn. & Amort.	1,139	1,295	1,654	1,687	1,704	
EBIT	6,362	4,490	5,364	7,405	8,979	
Other Income	479	628	800	608	617	
Finance Cost	309	486	850	850	650	
PBT before Excep. & Forex	6,532	4,631	5,314	7,163	8,946	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	6,532	4,631	5,314	7,163	8,946	
Taxes	1,410	1,214	1,463	1,904	2,279	
Extraordinary Inc./Loss(-)	527	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	5,650	3,417	3,851	5,259	6,667	
Adjusted Net Profit	4,882	3,276	3,851	5,259	6,667	
Net Margin	10.1%	7.0%	6.9%	8.4%	9.3%	
Diluted Share Cap. (mn)	204.0	201.8	201.7	201.7	201.7	
Diluted EPS (INR)	23.9	16.2	19.1	26.1	33.0	
Diluted EPS Growth	1.8%	-32.1%	17.6%	36.6%	26.8%	
Total Dividend + Tax	510	508	4,035	4,438	5,044	
Dividend Per Share (INR)	2.5	2.5	20.0	22.0	25.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	6,029	3,970	5,314	7,163	8,946	
Depn. & Amort.	1,139	1,295	1,654	1,687	1,704	
Net Interest Exp. / Inc. (-)	305	478	50	242	33	
Inc (-) / Dec in WCap.	762	-583	-3,093	-2,538	1,626	
Others	-100	48	400	400	400	
Taxes Paid	-1,187	-678	-1,463	-1,904	-2,279	
Operating Cash Flow	6,947	4,529	2,862	5,050	10,431	
Capex	-3,965	-8,561	-1,243	-343	-343	
Free Cash Flow	2,982	-4,032	1,620	4,707	10,088	
Inc (-) / Dec in Investments	718	-175	0	0	0	
Others	153	148	800	608	617	
Investing Cash Flow	-3,094	-8,588	-443	265	274	
Inc / Dec (-) in Capital	-2,669	-1,008	0	0	0	
Dividend + Tax thereon	-510	-508	-4,035	-4,438	-5,044	
Inc / Dec (-) in Loans	-371	6,640	-1,300	-2,700	-2,100	
Others	-304	-1,066	-850	-850	-650	
Financing Cash Flow	-3,854	4,058	-6,185	-7,988	-7,794	
Inc / Dec (-) in Cash	-1	0	-3,765	-2,673	2,911	
Opening Cash Balance	28	33	119	-3,646	-6,320	
Closing Cash Balance	27	33	-3,646	-6,320	-3,409	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	27,582	28,754	28,571	29,391	31,015	
Share Capital	204	202	202	202	202	
Reserves & Surplus	27,378	28,553	28,369	29,189	30,813	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	12,096	18,785	17,485	14,785	12,685	
Def. Tax Liab. / Assets (-)	720	1,219	1,619	2,019	2,419	
Total - Equity & Liab.	40,398	48,759	47,675	46,196	46,119	
Net Fixed Assets	18,379	26,229	25,817	24,473	23,112	
Gross Fixed Assets	23,363	34,094	35,337	35,680	36,023	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	7,026	8,108	9,763	11,450	13,154	
Capital WIP	2,043	243	243	243	243	
Investments	1,575	1,750	1,750	1,750	1,750	
Current Assets	24,814	26,042	26,756	27,418	29,799	
Inventories	22,005	23,187	25,868	28,838	27,805	
Sundry Debtors	1,367	1,248	3,047	3,413	3,915	
Cash & Bank Balances	33	119	-3,646	-6,320	-3,409	
Loans & Advances	1,409	1,488	1,488	1,488	1,488	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	4,371	5,262	6,649	7,446	8,541	
Current Liabilities	3,083	3,519	4,571	5,119	5,872	
Provisions & Others	1,288	1,743	2,078	2,327	2,669	
Net Current Assets	20,443	20,780	20,107	19,972	21,257	
Total - Assets	40,398	48,759	47,675	46,196	46,119	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	10.1%	7.0%	6.9%	8.4%	9.3%	
Asset Turnover (x)	1.2	1.0	1.2	1.3	1.5	
Leverage Factor (x)	1.5	1.6	1.7	1.6	1.5	
RoE	18.3%	11.6%	13.4%	18.1%	22.1%	

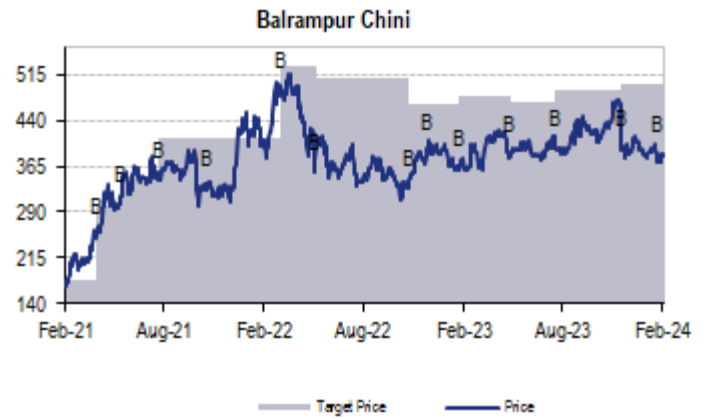
Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	135.2	142.5	141.6	145.7	153.7	
ROIC	13.4%	7.9%	8.3%	11.2%	14.2%	
ROE	18.3%	11.6%	13.4%	18.1%	22.1%	
Net Debt/Equity (x)	0.4	0.6	0.7	0.7	0.5	
P/E (x)	15.9	23.5	20.0	14.6	11.5	
P/B (x)	2.8	2.7	2.7	2.6	2.5	
EV/EBITDA (x)	11.9	16.5	14.0	10.8	8.7	
EV/Sales (x)	1.8	2.0	1.8	1.6	1.3	
Debtor days	10	10	20	20	20	
Inventory days	166	181	170	169	142	
Creditor days	27	31	34	35	35	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
25-Jun-20	Hold	160	
7-Nov-20	Hold	180	12.5
20-Apr-21	Buy	300	66.7
2-Jun-21	Buy	350	16.7
10-Aug-21	Buy	410	17.1
9-Nov-21	Buy	410	0.0
24-Mar-22	Buy	530	29.3
25-May-22	Buy	510	-3.8
12-Nov-22	Buy	465	-8.8
15-Dec-22	Buy	465	0.0
13-Feb-23	Buy	480	3.2
15-May-23	Buy	470	-2.1
8-Aug-23	Buy	490	4.3
8-Dec-23	Buy	500	2.0
9-Feb-24	Buy	500	0.0

Recommendation History



APPENDIX I

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