Dhampur Sugar Mills Limited

March 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	-	-	Reaffirmed at CARE A+; Stable and withdrawn
Fixed deposit	35.00	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding bank loan rating of 'CARE A+; Stable [pronounced as 'A Plus; Outlook: Stable'] assigned to the bank facilities of Dhampur Sugar Mills Limited (DSML) with immediate effect. The above action has been taken at the request of DSML and 'No Objection Certificate' as well as 'No Dues Certificate' received from the banks that has extended the facilities rated by CARE Ratings.

The reaffirmation in the rating assigned to the instrument of DSML continues to derive strength from its well-established and long track record in the sugar industry, the forward-integrated nature of operations with the distillery and cogeneration power divisions mitigating the industry cyclicality to an extent, and the healthy operating with positive recovery rates. The rating also derives comfort from the comfortable financial risk profile with profitability likely to remain healthy owing to steady sugar realisations and higher volumes from distillery segment and favourable industry outlook. Furthermore, CARE Ratings also notes that the ongoing capex of expansion of distillery of 130 KLPD is completed in February 2023.

However, these rating strengths are partially offset by the susceptibility of the revenues and profitability to the demand-supply dynamics, the susceptibility to agro-climatic conditions, and the cyclical and highly regulated nature of the industry. That said, going forward, with the expected higher diversion of B-heavy molasses and sugarcane juice towards ethanol production, the sugar inventory levels are expected to decline in the country, resulting in lower volatility in the prices. Furthermore, the continuation of the government's policy in the form of fixing minimum support price (MSP) for sugar and remunerative ethanol prices, will continue to lend support to the industry. DSML, being an integrated player, remains well-placed to benefit from these developments.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained increase in the scale of operations along with improved revenue and geographic diversification in operations.
- Improvement in the capital structure on a sustained basis, with overall gearing below 0.5x and total debt (TD)/, profit before interest, lease rentals, depreciation and taxation (PBILDT) below 2x.

Negative factors

- Any significant debt-funded capex or decline in profitability, leading to TD/PBILDT above 3.5x on a sustained basis.
- Decline in profitability margins, as marked by PBILDT margin below 10%, leading to a moderation in the interest coverage indicators on a sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its market position and financial risk profile backed by integrated business model.

Key strengths

Experienced promoters and long track record of operations

Post demerger, DSML is headed by AK Goel and Gaurav Goel. The company has been operating in the sugar industry for over nine decades. Gaurav Goel has been affiliated with DSML and has served on its board since 1994. He is a business management graduate from the American College of London, UK, and an alumnus of the Harvard Business School. He has over 27 years of experience in the sugar industry and has been the President of the Indian Sugar Mills Association (ISMA) and Chairman of the

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Indian Sugar Exim Corporation Limited during 2017-18. He was the President of the Entrepreneurs' Organisation (EO), Delhi during 2006-2007; Chair of the Young Presidents' Organisation (YPO), Delhi, 2012-2013; and the YPO Greater India Chapter in 2015-2016.

Integrated business model and diversified revenue stream

The company is forward-integrated into cogeneration and distillery operations that de-risk the core sugar business of the company to some extent. DSML, post the demerger, operates the Dhampur and Rajpura units with 23,500 tonne crushed per day (TCD) of sugar capacities in Uttar Pradesh, which are forward-integrated into the power and alcohol business with a cogeneration capacity of 121 megawatt (MW) and distillery capacity of 250 kilolitre per day (KLPD) as on March 31, 2022. During FY22 (refers to the period from April 01 to March 31), the sugar segment contributed 54% of the gross revenue while the balance was from other segments. However, the distillery segment accounted for 45% of earnings before interest and tax (EBIT) in FY22, and sugar and power, respectively, accounted for 20% and 28%, respectively. DSML produces ethanol using B-heavy molasses and Syrup, and during FY22, DSML sold 6.96 crore litre of ethanol (PY: 6.06 BL), of which 6.34 crore litre was generated through the B-Heavy, while 0.61 crore litre was from syrup routes. The higher contribution from the non-sugar segments augurs well for DSML's overall profitability, as its EBIT margins are relatively more stable than that of the sugar segment.

Comfortable operational performance profile despite scale reduction post-de-merger

Notwithstanding the reduction in scale, post the demerger, DSML remains one of the leading sugar manufacturers in India with a healthy and integrated business profile and a long track record of operations. The total operating income (TOI) in FY22 remained stable, at ₹1,917.50 crore, as against ₹2,032.36 crore in FY21. DSML crushed cane of 35.83 lakh tonne in FY22 vis-à-vis 38.47 lakh tonne in FY21, while the company sold 3.21 lakh tonne of sugar in FY22 (PY: 4.50 lakh tonne). The profitability margin improved significantly to 14.23% in FY22 from 7.53% in FY21 on account of higher realisation of the sugar segment at ₹34.23 per kg in FY22, as against ₹32.01 per kg in FY21, and also the higher diversion towards B-heavy ethanol and increased realisation from chemical segment wherein the average realisations from that segment increased by 56% in FY22. Furthermore, the company commenced ethanol production from cane juice as well during Q4FY22. The company is likely to increase the production through cane juice, going forward, which will aid DSML in optimising its working capital position and profitability.
During 9MFY23, DSML has reported 22% growth in its TOI to reach ₹1,757.14 crore as against ₹1,440.56 crore in 9MFY22. The sugar segment accounted for about 55% of the gross TOI. However, the distillery (including potable spirits and chemical) segment accounted for more than 50% of the EBIT in 9MFY23, reinstating the fact that the high contribution from the non-sugar segments bodes well for DSML's overall profitability, as these segments' EBIT margins are relatively more stable than those of the sugar segment. However, the PBILDT margins moderated on account of wage revision and increase in molasses levy which increased to 20% from 18%.
Furthermore, with the completion of expansion of its distillery capacity by 130 KLPD on "C" heavy molasses which will further aid the TOI and profitability.

Comfortable financial risk profile

As on March 31, 2022, the overall gearing stood at 1.00x. The other coverage ratios moderated as on March 31, 2022, due to a reduction in the net worth arising from the demerger. However, the total debt in absolute terms is also reduced as on March 31, 2022, to ₹885.57 crore (of which ₹601.24 crore is working capital borrowing while the rest is term loan and lease liability). Of the total long-term loans of ₹230 crore, about 50% was under interest-subvention schemes announced by the government towards the development of the sugar industry, leading to lower effective interest cost. As a result, the interest coverage remained healthy at 5.36x in FY22 (FY21: 3.65x).
Furthermore, DSML has prepaid its debt obligation of ₹70 crore in October 2022, which resulted in significantly low debt outstanding of ₹376.59 crore as on December 31, 2022, of which term debt stood at ₹234.11 crore.

Operationally efficient sugar mills with healthy recovery rates

The company's gross recovery rate for the sugar season stood at 12.65% in 9MFY23 which marginally improved from 12.16% in FY22 & 11.37% in FY21. However, the net recovery rates moderated to 7.93% in 9MFY23 (FY22: 10.37%) owing to the higher diversion of cane towards syrup ethanol of 5.21 lac tons. Healthy recovery rates over the years aided in reducing the company's cost of production. Over the medium term, the higher production of ethanol from B-heavy molasses and sugarcane juice is likely to moderate the net recovery rates to some extent amid the continued high share of better-yielding cane variety.

Supportive government policies

Starting 2018-19, the Government of India (GoI) has implemented a slew of measures and supportive mechanisms, providing much-needed support to the industry, which had been witnessing mounting cane arrears and high debt burden. With production and inventory continuing to be high during past few sugar seasons, the GoI continued to exert control on the volume of sugar sold (through the release order mechanism) as well as the pricing (through the enforcement of MSP). The other support offered by the government includes soft loans to clear cane arrears, cane subsidies, transportation subsidies for sugar exports, interest subvention on buffer stocks, and interest subvention schemes for setting up of ethanol capacity.

Industry outlook

On June 5, 2021, the government advanced the ethanol blending target of 20% in petrol by five years, from 2030 to 2025, to reduce pollution as well as India's dependence on expensive crude oil imports. This move is expected to provide a boost to the sugar industry by encouraging more diversion of sugarcane and sugar towards ethanol, thereby reducing the sugar glut in India. The Ethanol Blending Programme (EBP) aims to increase the ethanol blend level with petrol to 20% by 2025 (advanced from 2030). The blending percentage of 7.6% has been achieved in the current SS on average, with some states like Uttar Pradesh, Maharashtra, Karnataka, Uttarakhand, Bihar, etc, having even achieved higher blending percentage of up to around 10%. With the surplus sugar situation auguring well for the ethanol industry and with the support the government has shown in the recent past in the form of interest subventions for distillery capacity expansion, an aggressive capex is underway already, as around 1,000 crore litre of ethanol is required to achieve the target of 20% blending.
As per the ISMA, 3.4 million tonne of sugar equivalent is estimated to be deviated towards ethanol production using the diversion of sugarcane juice, sugar and sugar syrup, B-heavy molasses and C-heavy molasses. Excluding this sugar diversion towards ethanol, India is estimated to produce 35 million tonne of sugar during SS2021-22 (y-o-y growth of 12.2%). In addition to this, India has an opening stock of 8.2 million tonne of sugar, which is expected to increase the sugar availability to 41.5 million tonne during the year to meet the domestic requirements and also sugar exports from India.
An increase in crude oil prices due to the Russia-Ukraine crisis is aiding an uptick in ethanol prices. This may influence the diversion of sugarcane towards ethanol and, in turn, global sugar production. However, if India offloads 9 million tonne of sugar, the country will be left with around 7 million tonne of closing stock for the current SS2021-22, which will be sufficient to meet the normative requirements of India for the next sugar season.
Notably, this closing stock will be at a five-year low and much less than the level of closing stock seen in the past three sugar seasons 2017-18 to 2019-20, where the closing stock ranged between 10 and 15 million tonnes. The closing stock for SS2020-21, however, was lower, at 8.2 million tonne. Thus, if India ends SS2021-22 with a reduced closing stock of around 7 million tonne, backed by high sugar exports, the domestic sugar prices are likely to get support and remain firm amid the expected record-high production of 35 million tonne of sugar during the year.

Key weaknesses

Working capital-intensive operations

The sugar industry being seasonal in nature has high working capital requirements during the peak season, which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, ie, sugarcane, and manufacture sugar during this period. CARE Ratings notes that DSML's focus on diverting more sugar to ethanol will be positive for the company, as the manufacturing of ethanol (B-Heavy route) leads to quicker receivables compared with a gradual liquidation of the large sugar inventory spreading across 12-15 months. The operating cycle stood at 192 days in FY22 (PY: 232 days).

Cyclical and regulated nature of sugar business

The industry is cyclical by nature and is vulnerable to government policies for various reasons, such as its importance in the wholesale price index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of state advised prices (SAP) and fair and remunerative prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country, and thus, affect the profitability of the sugar companies.

Profitability of Uttar Pradesh-based sugar mills continues to depend on the state government policy on cane prices

DSML's profitability, along with other Uttar Pradesh-based sugar mills, continues to be vulnerable to the Government of Uttar Pradesh's (GoUP's) policy on cane prices. Cane prices are determined by the GoUP at the start of the crushing season. Thus, the company's performance can be impacted by a disproportionate increase in cane prices. Furthermore, its profitability remains vulnerable to the government's policies on exports, MSP, and remunerative ethanol prices. However, the recent measures taken by the Central Government and the GoUP support sugar prices and the liquidity of sugar mills. The continuation of government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears.

Liquidity: Adequate
The liquidity is marked by healthy accruals against the repayment obligations of the company. For Q4FY23, the scheduled repayment obligations are around ₹9 crore out of the total scheduled repayments for FY23, which stood at ₹43 crore. The company has also prepaid its ₹70 crore loan from KB Kookmin Bank in October 2022. The debt repayments due in FY24 and FY25 are ₹60 crore and ₹73 crore, respectively. The total cash and equivalents stood at ₹1.84 crore as on December 31, 2022. The cash flow from operations is likely to remain healthy in the medium term with robust profits and a reduction in the inventory levels.
The operating cycle stood at 192 days in FY22 as compared with 232 days in FY21 on account of reduction in the inventory days which reduced from 290 days to 240 days in FY22.
As on March 31, 2022, sugar inventory stood at 817 crore (2.02 lakh tons valued at average rate of ₹30.57/Kg). Subsequently, sugar inventory stood at ₹238.58 crore (0.71 lakh tons valued at average rate of ₹33.60/kg) as on December 31, 2022. Also, notably, the inventory days remain relatively high in comparison to other industries, as manufacturing of sugar takes place from November to April, while sales take place uniformly during the complete year and also due to the imposition of the sales quota on sugar companies, which led to high inventory days. The average utilisation of the working capital facilities for the 12 months ended December 31, 2022, stood at around 55%. The current ratio stood at 1.12x as on March 31, 2022, as against 1.19x as on March 31, 2021.

Environment, social, and governance (ESG) risks

Sugarcane is an agri-commodity and prone to climatic risks. The climatic conditions along with pests' attacks and other factors, can affect sugarcane productivity, recovery and in turn have an impact on an entity's profitability. However, the company's sugar facilities are in Dhampur, UP, with adequate availability of cane, thereby mitigating the climatic risks to a certain extent. DSML is also exposed to the risks arising from tightening regulations regarding discharge or treatments of effluents. However, DSML has installed latest equipment to control air and water pollution and maintain Zero Liquid Discharge from the Distilleries.

Environmental: Over the years, DSML has strengthened its environmental practices. The Company took measures in the area of water conservation through rainwater harvesting. The Company developed rainwater harvesting system for every area (plant and godown). Conducted activities related to green belt development including plantation initiatives (planted 54,000 trees in FY 2021-22).

Social: DSMLs corporate social responsibility activities comprise education, sports, good agricultural practices, skill development, women's empowerment, healthcare / sanitation, rural development and environment sustainability. Further, DSML focusses on Health & Safety of employees (HSE). Its HSE policy enhances employee safety and ensures that environment protection maintains product value. The Company's HSE philosophy reconciles zero accidents, zero breakdowns, zero defects and zero loss, translating into positive outcomes. During the year under review, DSML invested ₹0.68 crores for the HSE function.

Governance: DSML has been practicing the principles of good corporate governance over the years and lays strong emphasis on transparency, accountability and integrity.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Sugar
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

DSML is promoted by the Goel family of Bareilly, Uttar Pradesh. In March 2021, the promoters of the company, Gaurav Goel and Gautam Goel, jointly decided to segregate the management and ownership of different manufacturing facilities and units, equally between the two promoter family groups. Consequently, the board of directors, in its meeting on June 07, 2021, approved a scheme of arrangement for the demerger of the business units of Asmoli, Mansurpur, and Meerganj into Dhampur Bio Organics Limited (resulting company). This scheme of arrangement was ratified by the NCLT vide its order dated April 27, 2022. The said order became effective from May 03, 2022. DSML, post the demerger, has a total sugar capacity of 23,500 TCD, 121 MW of power, and 250 KLPD of ethanol.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	2,032.36	1,917.50	1,757.14
PBILDT	152.99	272.82	205.96
PAT	143.45	146.95	92.4
Overall gearing (times)	0.74	1.00	NA
Interest coverage (times)	3.65	5.36	6.20

A: Audited; UA: Unaudited; NA: Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit		-	-	-	35.00	CARE A+; Stable
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	Sep 2027	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A+; Stable (22-Jul-22)	1)CARE A+ (CW with Developing Implications) (01-Nov-21) 2)CARE A (CW with Developing Implications) (16-Jun-21)	1)CARE A; Stable (06-Oct-20)	1)CARE A; Stable (09-Oct-19)
2	Fund-based - LT-Term Loan	LT	-	-	1)CARE A+; Stable (22-Jul-22)	1)CARE A+ (CW with Developing Implications) (01-Nov-21) 2)CARE A (CW with Developing Implications) (16-Jun-21)	1)CARE A; Stable (06-Oct-20)	1)CARE A; Stable (09-Oct-19)
3	Fixed Deposit	LT	35.00	CARE A+; Stable	1)CARE A+; Stable (22-Jul-22) 2)CARE A+ (CW with Developing Implications)	1)CARE A+ (FD) (CW with Developing Implications) (01-Nov-21)	1)CARE A (FD); Stable (06-Oct-20)	1)CARE A (FD); Stable (09-Oct-19)

					(22-Jun-22)	2)CARE A (FD) (CW with Developing Implications) (16-Jun-21)		

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: NA

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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