

Dhampur Sugar Mills Limited

April 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹
Long term Bank Facilities – Term Loan	194.29 (reduced from 316.70)	CARE A; Stable (Single A; Outlook: Stable)
Long term Bank Facilities – Fund based	1100.00 (1100.00)	CARE A; Stable (Single A; Outlook: Stable)
Total	1294.29 (Rs. One Thousand Two Hundred Ninety-Four Crore and Twenty-Nine Lakhs Only)	
Medium-term Fixed Deposit	30.00	CARE A (FD); Stable (Single A (Fixed Deposit); Outlook: Stable)

Update on of Potential Restructuring in Dhampur Sugar Mills Limited (DSML)

On March 27, 2021, DSML made an announcement regarding potential restructuring proposed jointly by the promoters of the company involving the segregation of the management and ownership of different manufacturing facilities/units equally between the two promoter family groups. Board of the company has constituted a restructuring committee to evaluate the feasibility and suitability of the proposal. As per the management, the proposal currently is exploratory and no decision to undertake any restructuring of the company has been approved by the Board so far. Going forward, CARE will continue to monitor the developments in this regard and take appropriate rating action as & when required..

Rating sensitivities

Positive Factors- *Factors that could lead to positive rating action/upgrade:*

- Ability of the company to increase its scale of operations by more than 20% from its current levels on a sustained basis.
- Improvement in its PBILDT margins to 15% or more on sustained basis.
- Ability to improve the capital structure marked by overall gearing of less than 1x on a sustained basis.

Negative Factors- *Factors that could lead to negative rating action/downgrade:*

- Decline in profitability margins as marked by PBILDT margin below ~10% on a sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity
- Materializing of the potential restructuring of the company leading to significant impact on the financial and operational risk profile of the company.

The previous press release of DSML is available on the following link: [Click here](#)

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Dhampur Sugar Mills Ltd (DSML) continues to derive strength from its comfortable financial risk profile characterized by growth in its total operating income & improvement in its capital structure in FY20 (refers to period from April 01 to March 31) and adequate liquidity. The ratings also factors in the integrated business model of DSML with sugar, distillery and power divisions. Further, the rating also draws comfort from its experienced promoters and management team and long track record of operations and healthy cane crushing. However, these rating strengths are partially offset by the cyclical nature of the sugar industry, working capital intensive nature of operations and regulated nature of the business.

Analytical Approach: Standalone

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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