

Bajaj Hindusthan Sugar Limited

March 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	5,159.51 (Reduced from 5,811.75)	CARE D	Reaffirmed
Short-term bank facilities	235.57 (Reduced from 278.83)	CARE D	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the rating assigned to the bank facilities of Bajaj Hindusthan Sugar Limited (BHSL) takes into account poor liquidity position of the company to service the upcoming debt obligations, deteriorated financial risk profile and significant outstanding cane dues. The rating continues to remain constrained by BHSL's leveraged capital structure, substantial investment in group companies and cyclical & regulated nature of sugar business. The rating takes note of the promoter's long track record of operations in the sugar industry and BHSL's diversified revenue profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Regularization of debt servicing on all the facilities for a sustained period
- Improvement in overall operational performance of the company leading to substantial improvement in its financial risk profile and effective management of its working capital and improvement in its liquidity position.
- Ability of the company to recoup its advances & investments from the group companies in a timely manner and reduce the overall debt exposure from the funds so received

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers

Key weaknesses

Weak financial profile & leveraged capital structure

During FY22, the total operating income of BHSL reduced by 17% to ₹5,569 crore against ₹6672 crore in FY21 (refers to period from April 01 to March 31). Amongst segments, the sugar division witnessed a fall of 20% in the revenue (FY22: ₹5,722 crore; FY21: ₹7,148 crore, distillery segment witnessed significant growth in its revenues by 137% (FY22: ₹980 crore; FY21: ₹414 crore) and the power segment witnessed a decline of 18% in revenue (FY22: ₹810 crore; FY21: ₹ 983 crore). The increase in revenue of distillery division was mainly attributable to increase in the operating days from 107 days in FY21 to 210 days in FY22 and consequent increase in sales volume from 843 lakh litres to 1755 lakh litres. The sales realisation also increased from ₹47 per liter to ₹53 per liter. The sugar segment witnessed a decline in volume and cane crushed owing to reduced operational days from 151 days in FY21 to 126 days in FY22. Accordingly, the operational performance of the company still remains weak with reduced operational days and lower capacity utilisation compared to the industry.

The profitability of BHSL remains subdued with PBILDT margin of the company at 4.05% in FY22. For 9MFY23 as well the profitability of the company has remained subdued with BHSL incurring a net loss of ₹268 crore. Owing to the weak operational and financial performance, BHSL is not generating sufficient accruals so far to be able to meet its interest and debt obligations out of its internal accruals and have largely been relying on stretching the cane payment areas. BHSL has in past as well stretched the cane dues payment to meet its debt and interest obligations.

The interest coverage of the company remains below unity at 0.89x in FY22 (PY: 0.68x). Total debt of the company, though reduced, remains high at ₹4792 crore (PY: Rs. 5389 crore) as on March 31, 2022. The total debt comprised of long-term loans of Rs. 1,295 crore, optionally convertible debentures of ₹3,483.25 crore, loan from related parties of ₹8 crore and ₹5 crore of finance lease liability. The overall gearing (without accounting for the group exposure) as on March 31, 2022 improved from 1.83x to 1.67x as on March 31, 2022 on account to reduction in debt and reduced losses.

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

During 9MFY23, the company posted a growth of around 8% in its total operating income to ₹4,267 crore (PY: ₹3,953 crore). PBILDT witnessed marginal improvement from 0.7% in 9MFY22 to 0.94% in 9MFY23. The improvement in the total operating income is attributable to growth in all the three segments. However, BHSL incurred a net loss during 9MFY23.

Substantial investment in group companies

The group has implemented a power project under Bajaj Energy Ltd (BEL) and commissioned a 1,980 MW project under Lalitpur Power Generation Company Limited (LPGCL). BHSL has invested a substantial amount of ₹2,858 crore (as on March 31, 2022) in its group companies by way of investments and loans & advances. Inability of BHSL to recover these advances in a timely manner in the past has led to its poor liquidity position. Recoverability of these advances shall be crucial to improve the liquidity position of BHSL.

Separately, BHSL was expecting to get some funds from divestment of minority stake in power business through the proposed IPO of BEL. However, due to the delay launching the IPO the validity of SEBI's approval for BEL's DRHP has expired. The promoters are now evaluating other alternatives for divesting its minority stake in group power business.

Cyclical & Regulated nature of sugar business

The industry is cyclical by nature and is vulnerable to the government policies for various reasons like 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 & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

Key strengths

Diverse Revenue Stream

BHSL is majorly into the production of sugar however it has diversified operations with other business like manufacturing of alcohol and Power, which de-risk the core sugar business of the company to some extent. BHSL has 14 sugar factories with an aggregate capacity of 1.36 lakh tonne of sugarcane crushed per day (TCD). It has six distilleries with capacity to produce 800 kilo litre per day (KLPD) of industrial alcohol and owns co-generation plants having power generating capacity of 449 MW.

During FY22, the segment wise gross contribution to operating income stood at sugar - 76% (PY:84%), distillery - 13% (PY: 5%) and power segment – 11% (PY:12%). The contribution of the distillery segment has increased substantially on account of improved capacity utilisation on account of the modifications made to the distillery during FY21.

Liquidity: Poor

The company had defaulted in servicing its debt obligation until October 2022, however, post that the debt payments have been regular. The company has currently regularised all its debt payments and also prepaid the debt instalment falling due on March 31, 2023. However, the company still has sizeable quantum of cane arrears of around Rs. 3,848 crore (gross cane arrears) and cane inventory of ₹2,075 crore resulting in net cane arrears of ₹1,773 crore as on February 22, 2023. The liquidity position of the company continues to remain poor with a cash and bank balance of only ₹41.77 crore as on December 31, 2022 and very low cash accruals. BHSL is meeting its debt service obligations from the operational cashflows, leading to a significant increase in cane payment arrears over the years, which reflects its stretched liquidity position. Large part of the cane dues pertains to current sugar season and these will be paid on rolling basis from the sale of sugar of current season. The principal debt obligation for each quarter in FY23 is ₹108.6 crore and that for FY24 and FY25 is ₹434 crore and ₹584 crore respectively.

During FY22, UPPCL has transferred ₹1,000 crore from the receivables of LPGCL to BHSL for payment of its sugarcane farmer dues pursuant to amendment in the UP Sugarcane (Regulation of Supplies and Purchase) Act, 1953 – which was notified through the UP State Gazette on Dec 27, 2021. This Act (of 2021) amends Sec. 17(4) of the Act of 1953, and empowers UP State Government to adjust the dues payable to the sugarcane farmers – from group companies having receivables from UP Government / UP State entities. In the financials for FY22 the aforesaid amount is reflected under the head "other current payable". Separately, State Bank of India has also moved to NCLT against BHSL on account of default. The next hearing before the NCLT is scheduled in the first fortnight of March 2023.

Environmental, social and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[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

BHSL, a part of the 'Shishir Bajaj Group', is one of the largest sugar manufacturing companies in the country and also the largest industrial alcohol manufacturer in India. BHSL has 14 sugar factories with an aggregate capacity of 1.36 lakh tonne of sugarcane crushed per day (TCD). It has six distilleries with capacity to produce 800 kilo litre per day (KLPD) of industrial alcohol and owns co-generation plants having power generating capacity of 449 MW.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	6,672	5,569	4,267
PBILDT	179	226	40
PAT	-280	-218	-268
Overall gearing (times)	1.83	1.67	NA
Interest coverage (times)	0.68	0.89	0.25

A: Audited, UA: Un-audited, NA: Not available. Note: 'the above results are latest financial results 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
Fund-based - LT-Cash Credit		-	-	-	925.51	CARE D
Fund-based - LT-Term Loan		-	-	31-03-2037	4234.00^	CARE D
Non-fund-based - ST-BG/LC		-	-	-	235.57	CARE D

^Consists of Term Loan of ₹751 crore and Optionally Convertible Debenture of ₹3,483 crore

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-Term Loan	LT	4234.00^	CARE D	-	1)CARE D (24-Dec-21)	1)CARE D (19-Jan-21) 2)CARE B+; Positive (14-Sep-20) 3)CARE B+; Stable (23-Jun-20)	1)CARE D (30-Jan-20) 2)CARE D (30-Jul-19)
2	Fund-based - LT-Cash Credit	LT	925.51	CARE D	-	1)CARE D (24-Dec-21)	1)CARE D (19-Jan-21) 2)CARE B+; Positive (14-Sep-20) 3)CARE B+; Stable (23-Jun-20)	1)CARE D (30-Jan-20) 2)CARE D (30-Jul-19)
3	Non-fund-based - ST-BG/LC	ST	235.57	CARE D	-	1)CARE D (24-Dec-21)	1)CARE D (19-Jan-21)	1)CARE D (30-Jan-20)

							2)CARE A4 (14-Sep-20)	2)CARE D (30-Jul-19)
							3)CARE A4 (23-Jun-20)	

*Long term/Short term

^Consists of Term Loan of ₹751 crore and Optionally Convertible Debenture of ₹3,483 crore

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	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	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.

Contact us

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