Dhampur Sugar Mills Limited

June 16, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	1,294.29	CARE A (CWD) (Single A) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	**1,294.29 (Rs. One Thousand Two Hundred Ninety-Four Crore and Twenty-Nine Lakhs Only)**		
Fixed Deposit	30.00	CARE A (FD) (CWD) [Single A (Fixed Deposit)] (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Medium Term Instruments	**30.00 (Rs. Thirty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to Dhampur Sugar Mills Ltd (DSML) on 'Credit watch with developing implications' on account of announcement of the scheme of arrangement announced by the company as well as the possible impact of the same on the credit risk profile of the company. Under the new scheme of arrangement, DSML will be demerged into 2 companies viz. DSML and Dhampur Bio Organics Ltd (DBOL). All the assets and liabilities of Asmoli, Mansurpur and Meerganj plants will be transferred to the resulting company viz. DBOL. DSML will retain its 2 plants situated at Dhampur and Rajpura. The scheme of arrangement is subject to the receipt of various regulatory approvals. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the bank facilities and instrument of Dhampur Sugar Mills Ltd (DSML) continues to factor in its healthy operating & financial risk profile and its integrated business model with sugar, distillery and power divisions mitigating the industry cyclicality. 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 working capital intensive nature of operations, cyclical and regulated nature of the sugar industry.

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

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record: Mr Vijay Kumar Goel, the Chairman of the company, has served as a promoter director since 1960. The company has been operating in the sugar industry for over nine decades. The managing directors of the company Mr Gautam Goel and Mr Gaurav Goel are the sons of the promoters Mr VK Goel and Mr AK Goel respectively.

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

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 operates 45,500 tonne crushed per day (TCD) of sugar capacities in UP, which are forward integrated into power and alcohol business with co-generation capacity of 220.5 megawatt (MW) and distillery capacity of 400 kilo litre per day (KLPD) in FY21. During FY21, the distillery and power division together contributed around 25% (PY: 26%) of the gross revenue from operations and balance 75% (PY: 74%) was from the sugar division. DSML also produces ethanol using B-heavy molasses and during FY21 it tendered for about 11.24 crore litres of ethanol, of which 9.07 crore litres was produced through B-heavy molasses and the rest from C-Heavy molasses. The higher contribution from the non-sugar segments' augurs well for DSML's overall profitability as their EBIT margins are relatively more stable than those of the sugar segment.

Comfortable Financial Risk Profile:
The total operating income of the company increased by ~24% in FY21 amounting to ~Rs 4233 crore as compared to Rs ~3404 crore in FY20. The increase in total income from operations is primarily due to increased sales in the distillery and sugar segment during the year. Further, PBILDT has increased by ~4% to Rs. 478 crores in FY21 from Rs. 413 crores in FY20 on account of better margins in distillery segment. The PBILDT margin stood at 11.29% in FY21 (12.13% in FY20). DSML's interest coverage been strong consistently (FY21: 6x, FY20: 3.45x) due to the existence of the incentivized loans availed by it to facilitate cane payments and distillery expansion.
Total debt as on 31st Mar 2021 decreased to ~Rs.1157 crores (PY: Rs 1752 crores) with decrease in term loan on account of scheduled debt repayment and decrease in working capital outstanding. Further, the working capital borrowings reduced and stood at Rs. 707 crores as on March 31, 2021 as against Rs. 1200 crores as on March 31, 2020. On account of lower debt and increased net-worth, overall gearing of the company has improved to 0.74x as on March 31, 2021 as against 1.28x as on March 31, 2020.
Ethanol demand and realizations have been improving over the past couple of years due to the government's focus on the ethanol blending programme and its effort to control sugar production by incentivizing ethanol which leads to overall inventory management and lower working capital requirements. Further with no major capex (apart from distillery capex as planned) and other regular maintenance capex, the overall gearing is expected to further reduce over the projected years with improvement in the net worth base by accretion of profits.

Adequate Liquidity:
The liquidity profile of the company remains adequate with stable cash accruals. Operating cycle has improved to 170 days in FY20 as compared to 183 days in FY19 primarily due to decrease in average inventory days from 230 days in FY19 to 203 days in FY20. The company has high inventory days as manufacturing of sugar takes place during November to April, while sales takes place uniformly during the complete year and also due to imposition of sales quota on sugar companies which led to high inventory days. Average utilization at maximum level stood for the twelve months ended April 2021 stood at ~75%. Current ratio stood at 1.20x as on March 31, 2021 against 1.07x as on March 31, 2020. Sugar Inventory stood at Rs. 1005.60 crores (3.33 lac tons valued at average rate of Rs.30.20/Kg) as on March 31, 2021 and cane arrears stood at 480 crores as on March 31, 2021. Company has not availed moratorium as per RBI guidelines and has scheduled repayments of Rs.114.21 crore in FY22.
Industry Outlook
The domestic oversupply to continue in the sugar season of 2020-21 due to a high carryover of stocks of around 10.6mnt and an increase in production, while consumption will be 25mnt-26mnt (SS19-20: 25.7mnt), resulting in an overall surplus. Given the stock build-up, the Government announced the export subsidy for the current SS little late on 16 December 2020 for Rs 3,500 crore and the same translates into an assistance of around Rs.5.8 per kg for 6MT for sugar to be exported. As per ISMA's latest release, the mills have contracted to export 5.7 million tonnes of sugar by May 19, 2021, which is 95% of the 6 million tonnes of the export target for the ongoing season fixed by the government. Following the surge in international prices, recently the Government reduced the export subsidy from Rs 5.85/kg to Rs 4/kg on any sugar contracted for export on or after May 20, 2021. Running on the highly remunerative global prices, the industry is all set to meet its export target of 6 million tonnes (MT) in this sugar season (SS).
Furthermore, with the expected dip in the Brazilian production due to poor cane crop and reduced crushing capacity in that country, the export dynamics are expected to prevail over the next SS as well. With ethanol blending by oil marketing companies (OMCs) picking up pace and with the Government's stance on increasing the blending targets to 20% supported by the remunerative ethanol pricing and incentive schemes to build up capacities to achieve the same, the economics of sugar industry are getting better. The government of India has taken multiple measures over the past couple of years to check the fall in sugar prices, improve the cash flows of millers and aid them to clear cane dues.
The measures include the fixation of a minimum selling price of sugar (increased to Rs 31/kg from Rs 29/kg in February 2019) and a regulated monthly release mechanism in June 2018 that have led to a recovery in sugar prices. Furthermore, the government continues to incentivize ethanol by providing soft loans at subsidized interest rates for setting up or expanding distillery capacities, in addition to an increase in the procurement prices. CARE Ratings believe that the with sugar inventories getting rationalized, demand-supply balance evening out and considerable increase in ethanol sales, the cash flows of integrated sugar mills is going to enhance.

Key Rating Weaknesses

Working capital intensive operations: 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, i.e., sugarcane and manufacture sugar during this period. 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 average working capital utilization for the twelve months period ended April 2021 stood at approximately ~75%.
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.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Manufacturing Companies
Liquidity Analysis of Non-financial sector entities
Financial Ratios – Non financial Sector
Rating Methodology-Sugar Sector

About the Company
As on March 31, 2021 DSML's sugarcane crushing capacity stood at 45,500 TCD, co-generated power capacity at 220.5 MW and cumulative ethanol production capacity per day at 4,00,000 litres. The company is having integrated operations comprising of sugar manufacturing, distillery operations and power generation. The presence in these businesses helps the company to partially mitigate the impact of cyclicality in the sugar industry.
DSML has announced with its notification dated June 07, 2021, that the Board of directors of the Company have considered and approved Scheme of Arrangement between Dhampur Sugar Mills, Dhampur Bio Organics and their respective shareholders and creditors. Under the scheme, DSML will have Dhampur and Rajpura plants while Dhampur Bio Organics Ltd will have Asmoli, Mansurpur and Meerganj plants.
Further, in consideration of the transfer of the Demerged Undertaking from the DSML to Dhampur Bio Organics, the DBOL shall issue 1 (one) fully paid up equity share of face value Rs.10 (Rupees Ten) each of the DBOL to the shareholders of the DSML for every 1 (one) fully paid up equity share of Rs.10 (Rupees Ten) each held in the DSML.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	3403.63	4233.51
PBILDT	412.82	477.80
PAT	211.37	218.85
Overall gearing (times)	1.28	0.74
Interest coverage (times)	3.45	5.98

A: Audited

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	1100.00	CARE A (CWD)
Fund-based - LT-Term Loan	-	-	Sep 2027	194.29	CARE A (CWD)
Fixed Deposit	-	-	-	30.00	CARE A (FD) (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	1100.00	CARE A (CWD)	-	1)CARE A; Stable (06-Oct-20)	1)CARE A; Stable (09-Oct-19)	1)CARE A-; Stable (08-Mar-19) 2)CARE A-; Negative (24-Sep-18) 3)CARE A-; Negative (05-Jun-18)
2.	Fund-based - LT-Term Loan	LT	194.29	CARE A (CWD)	-	1)CARE A; Stable (06-Oct-20)	1)CARE A; Stable (09-Oct-19)	1)CARE A-; Stable (08-Mar-19) 2)CARE A-; Negative (24-Sep-18) 3)CARE A-; Negative (05-Jun-18)
3.	Fixed Deposit	LT	30.00	CARE A (FD) (CWD)	-	1)CARE A (FD); Stable (06-Oct-20)	1)CARE A (FD); Stable (09-Oct-19)	1)CARE A- (FD); Stable (08-Mar-19) 2)CARE A- (FD); Negative (24-Sep-18) 3)CARE A- (FD); Negative (05-Jun-18)
4.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (24-Sep-18) 2)CARE A1 (05-Jun-18)

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

Annexure 4: Complexity level of various instruments rated for this company

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

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.*

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