Uttam Sugar Mills Limited (Revised)

July 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	783.15 (Reduced from 785.15)	CARE BBB+; Stable	Revised from CARE BBB; Stable
Short-term bank facilities	27.00 (Enhanced from 25.00)	CARE A2	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Uttam Sugar Mills Limited (USML) considers the continuous improvement in financial risk profile over the years including FY23 (refers to period from April 01 to March 31) as reflected in its improved capital structure and coverage indicators.

The ratings factor in the favourable impact of increased scale of operations and comfortable operating margins aided by higher domestic and international sugar prices, along with increased distillery volumes as well as improved ethanol realisations year on year. These operational metrics are expected to remain healthy going forward as well. For FY24, the performance is expected to further improve on the back of increased distillery capacity of additional 100 Kilo litres per day which will be operational from Q3FY24 which shall lead to higher sales and absolute profitability.

The ratings also continue to derive strength from its experienced promoters and management team, long track record of operations and forward integration into cogeneration and distillery businesses. The ratings, however, remain constrained by working capital-intensive nature of operations, leveraged capital structure and cyclical and regulated nature of sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability of the company to improve profitability on sustained basis such that annual cash accruals are over ₹220 crore.
- Improvement in Total outstanding liabilities (TOL) to Tangible net worth (TNW) below 1x on a sustained basis.

Negative factors

- Increase in Total outstanding liabilities to Tangible net worth beyond 2x on a sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity significantly.
- Decline in profitability of the company marked by decline PBILDT margin below 10% or less on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects Care Ratings Limited's (CARE Ratings') expectation that USML is likely to have healthy accruals supported by increased volumes from the distillery segment and realisations. Furthermore, USML is likely to maintain its comfortable financial risk profile backed by the industry's focus on diverting excess cane towards ethanol production and improving the domestic demand-supply sugar balance.

Detailed description of the key rating drivers:

Key strengths

Integrated business model with operational efficient mills and healthy recovery rates

The company is forward integrated into cogeneration and distillery operations that de-risk its core sugar business to some extent. USML is having four sugar plants situated at Libberheri (Roorkee, Uttarakhand), Barkatpur (Bijnor, U.P), Khaikheri (Muzaffarnagar,

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

U.P) and Shermau (Saharanpur, U.P) with an overall running capacity of 6,250, 7,000, 4,500 and 6,000 TCD respectively. In the sugar segment, the revenue increased from ₹1,632.90 crore in FY22 to ₹1634.72 in FY23. During FY23, the company has sold 30.59 lac QTL of sugar @ 36.38 per kg and exported 14.92 lac QTL of sugar @ 34.97 per kg as against 36.97 lac Mt @35.42 per kg of sugar sales and exported 9.71 lac QTL @ 32.19/kg in FY22. This was mainly on account of higher realizations in the sugar segment compared to last year and more diversion towards B-Heavy ethanol in FY23 compared to FY22 (increase in B-Heavy ethanol production to 471.74 Lakh BL (85.70%) from 418.15 Lakh BL (82.61%) in FY 2022) leading to higher margins as B-Heavy ethanol is associated with higher profitability.

Apart from sugar operations, USML has a bagasse-based cogeneration power plant of 122 MW (64 MW exportable) capacity at all the four sugar factories. The power produced by the cogeneration plants is utilised for running the own sugar mills and surplus power is exported. During FY23, USML produced 2893.00 lakh kWh units of power (P.Y: 2877.00 lakh kWh). Out of total production, USML exported 1504.02 Lakhs KWH units to UPPCL/UPCL for a total amount of ₹60.40 crore in FY23. The per unit realization from power segment has improved to ₹4.02 in FY23 (PY: 3.93). The operational metrics of all the segments are expected to remain healthy going forward as well.

The company's gross recovery rate for the sugar season slightly moderated to 11.69% from 11.90% owing to agro-climatic conditions but remained healthy. However, the net recovery rates moderated to 10.41% (PY: 10.97%) owing to the higher diversion of cane towards B-heavy molasses-based ethanol. 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.

Increasing scale of operations along with comfortable profitability margins

The total operating income of the company increased marginally by around1.6% in FY23 mainly on account of increased sugar sales from $1632.90 crore in FY22 to ₹1634.72 crore. The PBILDT margins of the company has deteriorated slightly from 12.96% in FY22 to 11.89% in FY23 on account of rise in cane prices and employee cost, although realizations from sugar and distillery segment sales was high as compared to FY22 but quantity sold was less in sugar segment in domestic market resulting in fall of PBILDT on an absolute basis. Company has focused more on B-Heavy ethanol in FY23 compared to FY22 (increase in B-Heavy ethanol production to 471.74 Lakh BL (85.70%) from 418.15 Lakh BL (82.61%) in FY 2022) leading to higher margins as B- In line with this, production in distillery also has been increasing year on year.

The company had two ongoing capex, one in the distillery segment and another one in sugar segment and both of which are expected to be completed by December 31, 2023 and contribute to enhances scale of operations and higher profitability going forward. Consequently, the total installed capacity for ethanol production will be increased from 200 KLPD to a total of 300 KLPD (addition in Barkatpur plant of 100 KLPD) by December 31, 2023 and for the sugar segment total capacity will increase from 23,750 TCD to a total of 26,500 TCD.

Going forward, the company is likely to divert higher cane towards the production of ethanol through B-heavy molasses and/or sugarcane juice with the expanded capacity becoming operational. USML's operating margins will be supported by the likely continuation of MSP, remunerative prices of ethanol and the industry's focus on diverting excess cane towards ethanol production, improving the domestic demand-supply balance.

Improved capital structure

There has been an improvement in the capital structure of USML. The total debt has reduced from ₹676 crore as on March 31, 2022 to ₹623 crore as on March 31, 2023 with repayments and as well as prepayment of debt in FY23 (by ₹24.41 crore over and above the scheduled of ₹84.82 crore) and with additional 50KLPD distillery which was though operational in FY22 but contributed higher volumes in Fy23 with full year of operations and a result the profitability improved thereby contributing to enhanced net-worth base. The overall gearing improved from 1.5x as on March 31, 2022 to 1.10x as on March 31, 2023. Further the TOL/TNW has also improved from 2.31x as on March 31, 2022 to 1.77x as on March 31, 2023 and is expected to further improve by FY24-end. The company has two ongoing capex for which the debt tie-up has been done and these projects will be operational in FY24 itself. CARE Ratings envisaged the capital structure to improve going forward with higher accruals coming from the sugar and distillery segments. Any significant debt-funded capex impacting the capital structure of the company shall remain a key monitorable.

Key weaknesses

Working capital intensive operation

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, i.e., sugarcane and manufacture sugar during this period. However, the company is planning to de-risk its model by reducing dependence on sugar. The average working capital utilisation at maximum level for the 12 months period ended March 2023 stood at 84.62%.

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. USML's profitability, along with other Uttar Pradesh / Uttarakhand-based sugar mills, continues to remain vulnerable to the state government's policy on cane prices. Thus, the company's performance can be impacted by disproportionate increase in cane price in any particular year. Furthermore, the profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction in the sugar prices is curtailed after the introduction of MSP by the Central Government in June 2018. Furthermore, healthy exports and higher diversion of sucrose towards ethanol in the recent years resulted in favorable demand-supply dynamics in the country, thus resulting in improved realisations currently. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice by the industry is expected to help in curtailing the excess supply of sugar, resulting in lower volatility in sugar prices and cash flows from the sugar business.

Liquidity: Adequate

The liquidity profile of the company remains adequate with stable cash accruals and cash and bank balance of ₹9.53 crore as on March 31, 2023. The company has term debt repayment of ₹51.34 crore and ₹39.80 crore in FY24 and FY25 respectively and cash accruals are expected to be in the range of ₹180-200 crores in the medium term. The operating cycle of the company remained almost at the previous year levels at around 119 days in FY23. 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. The average max utilisation of the working capital limits stood high at 84.62% for the past 12 months ending March 2023. The current ratio stood at 1.03x as on March 31, 2023 against 0.90x as on March 31, 2022, however in FY23 ratio stood above unity as compared to previous year on account of low repayments and also on account of low cane dues at year end. The working capital borrowings outstanding as on March 31, 2023, stood at ₹517.06 crores. USML has Rs. 132.70 crore cane arrears as on June 30, 2023.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks

CARE Ratings believes that USML's Environment, Social, and Governance (ESG) profile supports its already comfortable credit risk profile.

The Sugar sector has a high impact on the environment because of large energy and emissions as well as higher dependence on water resources. The sector has a high social impact because of its labour-intensive operations. USML has continuously focused on mitigating its environmental and social impact.

Environment: In view of company's corporate policy for reducing use of ground water, USML has achieved almost zero ground water extraction in all the plants, except water required for drinking purpose, starting and closing of plant and alternate emergency requirement for use in boilers. Most of the process condensate generated during juice boiling is now being utilized after treatment in place of fresh ground water. The efforts made by company in this direction have substantially reduced power consumption required for tube wells operation. Additional power saving devices like Variable frequency drives (VFD) and HT/LT power capacitors were installed for power saving in all the plants. All the four sugar factories have bagasse based co-generation power plants, partly used for captive consumption and balance being exported to U.P. / Uttarakhand Power Corporation Ltd.

Social: The company implemented the social activities in the neighbouring villages of company's factories/other areas for the welfare of the general public living therein. Many efforts and initiatives have been put in place to ensure employee health and safety. The Company has in place a Health and Support Wellness program at every manufacturing units where it offers a range of reliable self-help resources. Additionally, the Company offers personalized help from professional counselors such as psychological counselor supporting physical health, mental health and e-workshops on topics like parenting, relationship etc.

Governance: USML's governance structure is characterized by 57% of its board comprising independent directors (including one women independent directors), presence of grievance redressal mechanism and robust governance policies.

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

About the company

The erstwhile promoters of the company, M.K. Swarup along with his family members incorporated Associated Sugar Mills Limited on October 4, 1993. Raj Kumar Adlakha along with his family members and associates acquired the company in October 1998. Later, the name of the company was changed to Uttam Sugar Mills Limited (USML).

The company is engaged in the manufacturing of sugar, ethanol and cogenerated power. The company has four sugar plants, out of which, one is located in the state of Uttarakhand and other three in Uttar Pradesh. The company has an aggregate sugarcane crushing capacity of 23,750 TCD (tonnes of cane per day) and cogeneration capacity of 122 MW (around 26% of export to Uttarakhand and 74% to Uttar Pradesh) and Ethanol production capacity of 200 KLPD (kilo litre per day; operational all year) as on March 31, 2023.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1,824.77	2,042.64	2,065.68
PBILDT	223.82	279.12	251.63
PAT	59.76	134.92	123.62
Overall gearing (times)	2.90	1.50	1.10
Interest coverage (times)	2.60	3.73	4.80

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: Not applicable

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

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

Complexity level of 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		-	-	-	660.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	31/12/2028	123.15	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	27.00	CARE A2

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	123.15	CARE BBB+; Stable	-	1)CARE BBB; Stable (26-Sep-22)	1)CARE BBB-; Stable (21-Feb-22) 2)CARE BBB-; Stable (22-Sep-21) 3)CARE BB+; Stable (05-Apr-21)	1)CARE BB+; Stable (06-Apr-20)
2	Fund-based - LT-Cash Credit	LT	660.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (26-Sep-22)	1)CARE BBB-; Stable (21-Feb-22) 2)CARE BBB-; Stable (22-Sep-21)	1)CARE BB+; Stable (06-Apr-20)

							3)CARE BB+; Stable (05-Apr-21)	
3	Non-fund-based - ST-BG/LC	ST	27.00	CARE A2	-	1)CARE A3+ (26-Sep-22)	1)CARE A3 (21-Feb-22) 2)CARE A3 (22-Sep-21) 3)CARE A4+ (05-Apr-21)	1)CARE A4+ (06-Apr-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicabe

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.

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About us:
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