Dhampur Bio Organics Limited (Revised)

September 13, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	985.01 (Enhanced from 650.00)	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating reaffirmation for the bank facilities of Dhampur Bio Organics Limited (DBOL) derives strength from its experienced promoters with long track record in the sugar industry, forward integrated nature of operations with distillery and cogeneration power divisions mitigating the industry cyclicality to an extent and rising scale of operations and healthy operating performance. CARE has noted that there was a moderation in operating profitability in FY23 owing to drop-in recovery rates due to pest attack, impact of retrospective one-time wage revision, as well as increased levy molasses proportion. The rating reaffirmation takes into account DBOL's comfortable credit risk profile and expected healthy operating profitability in FY24 which shall sequentially improve from FY23 levels owing to improved recovery rates, steady sugar realisations and continued momentum of higher volumes from distillery segment leading to improved working capital management.

However, these rating strengths are partially offset by susceptibility of the revenues and profitability to the demand-supply dynamics, susceptibility to agro-climatic conditions, cyclical and highly regulated nature of the industry. That said, going forward, with the expected continued support by the government in the form of fixing minimum support price (MSP) for sugar and procurement of ethanol by OMC's at remunerative prices will continue to lend support to the industry and keep sugar inventory under check. DBOL, 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 its scale of operations along with improved revenue and geographical diversification in operations by more than 25%.
- Improvement in the capital structure on a sustained basis with overall gearing below 0.5x.

Negative factors

- Increase in overall gearing above 1.0x on a sustained basis.
- Decline in profitability margins as marked by PBILDT margin below 8% 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 DBOL is likely to maintain its comfortable credit risk profile backed by integrated business model, with distillery revenue scaling up, operational cash flows are likely to be more stable.

Detailed description of the key rating drivers

Key strengths

Integrated business model and diversified revenue stream with increasing focus on ethanol to aid inventory management: Post the demerger, DBOL holds the Asmoli, Mansurpur and Meerganj units, having aggregate cane crushing capacity of 22,000 tonnes crushed per day (TCD), which will be 29,500 tonnes crushed per day (TCD) post the expansion under process, 250KLPD on C-heavy assessed as 312.5KLPD as per B-heavy molasses and a cogeneration unit of 95.50 megawatts (MW).

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

DBOL's sugar division is fully integrated with forward integration into cogeneration and distillery operations that de-risk the core sugar business of the company to an extent. During FY23, the sugar segment accounted for about 68% of the external revenue, followed by Bio Fuels, distillery (22%) and balance by country liquor However, the distillery (including bio- spirits) segment accounted for approximately 50% of the EBIT in FY23 which has significantly increased from FY22 levels owing to additional 100KLPD distillery being operational for full year in FY23, reinstating the fact that the high contribution from the non-sugar segments bodes well for DBOL's overall profitability as these segments' EBIT margins are relatively more stable than those of the sugar segment.

Comfortable financial risk profile with profitability likely to remain healthy owing to steady sugar realisations and higher volumes from distillery segment: During FY23, total income of the company increased by 55% to Rs. 2401.69 crore (PY: 1554.23 crore) due to increased quantity of sugar & ethanol sold along with additional sales from the CL segment.
The distillery segment's gross revenue grew about 105% yoy to INR 563.76 crores in FY23, on the back of 100 KLPD distillery being operational for full year in FY23, increased sugar diversion towards ethanol and realisations. Gross sugar sale also recorded 55% increase in topline driven by 38% y-o-y rise in volumes and also increased realizations.
The EBITDA margins moderated from 11.45 v% in FY22 to 8.47% in FY23 due to higher costs on account of moderation in recovery rates due to pest attacks, impact of retrospective wage revision as well as increased levy molasses proportion despite increase in realizations in sugar and distillery segments.
CareEdge Ratings expects the increasing revenue contribution from the high-margin distillery segment to aid profits in the near-to medium-term and these one-off cost not to appear in FY24 and hence sequentially the operating profitability should improve. The company in Q1FY24 reported 36% yoy growth in revenue, backed by improved sales across segments while EBITDA stood at Rs 41.14 crore as against Rs 35.15 crore in Q1FY23. The leverage (Total Gross debt/EBITDA) stood at 3.99x as of March 2023 improved from 4.69x as on March 31, 2022, levels, owing to lower inventory levels, leading to lower working capital borrowings. In March 2023, the company's gross debt stood at Rs 810.31 crore (FY22: Rs 834.64 crores) comprising of gross working capital debt of Rs 557.38 crores and balance being long term debt. Care Ratings expects the net leverage to remain healthy below 3.5x in the medium term, despite the debt-funded capex, on the back of increasing EBITDA from the distillery segment and the likely reduction in inventory levels, due to increased sugar diversion towards ethanol. Interest coverage (gross interest expense/EBITDA) remained healthy at 4.99x in FY23 (FY22: 6x) despite the weakening of its EBDITA margins and it is expected to remain healthy going forward as well. Further, DBOL has announced a Greenfield 250 KLPD, expandable to 375 KLPD on B heavy distillery at Meerganj unit. This new distillery, if taken and completed is expected to be operational in Q2 FY'26. The capex for the Greenfield distillery is expected to be INR240 crores in a phased manner. The project shall be partly funded by term loans which are eligible for the 50% interest subvention scheme of the Government of India. The project debt is expected to be taken in phased manner such that credit profile is not significantly impacted and DBOL's ability to gain expected benefits out of the same shall remain monitorable.

Operationally efficient sugar mills with healthy recovery rates: Healthy recovery rates over the years aided in reducing the company's cost of production. There was a decline in gross recovery in FY23 to 11.01% from 11.44% in FY22 as there was severe pest infestation in both Asmoli & Mansurpur units which impacted the recovery rates and consequently the cost of production. The net recovery rates moderated to 9.42% in FY2023 (PY: 10.23%) owing to the higher diversion of cane towards B-heavy molasses-based ethanol and also due to lower gross recovery in FY23.
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 but it is expected to improve sequentially from FY23 levels as FY23 was lower due to pest attack.

Supportive government policies & increased focus on ethanol to aid inventory management: 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.

While India's sugar production has been increasing structurally over the past few years, due to an improvement in sugarcane yields, demand growth remained modest at 1%-2% annually, exceeding the consumption and resulting in high inventory levels in the past. In order to help industry manage their inventory levels, the government has been focusing on an ethanol blending programme and has advanced the timeline for 20% ethanol blending in petrol to 2025 from 2030. Given the current blending rate of about 10-11%, the target presents a huge demand potential and the government has been incentivising the segment to meet the said target. DBOL is also placed well to gain from the government policy measures.

Experienced promoters: DBOL is headed by Vijay Kumar Goel and Gautam Goel. VK Goel has been the Chairman of the company and has served as a promoter director since 1960 of Dhampur Sugar Mills Limited (DSML). He has been the President of Indian Sugar Mills Association and the Indian Sugar Export Corporation. With over 60 years of experience in the sugar industry, VK Goel has spearheaded several technological innovations in the industry.
Gautam Goel has been on the Board since 1994. He has been the President of the Indian Sugar Mills Association and Indian Sugar Export Corporation. He has focused on value-addition, which included pioneering the production of sulphur-less refined sugar in India. Gautam Goel is involved with the farmer outreach efforts of the company and is spearheading the sustainability and social governance initiatives.

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. DBOL'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.

Vulnerable to agro-climatic risks, Cyclical and regulated nature of sugar business: Sugarcane crop is vulnerable to the climate change directly through changes in temperature and/or precipitation/monsoon and indirectly through pest-related attacks. The sugar industry is directly dependent on the sugarcane crop and its yield and is hence prone to the climatic risks.

The industry is cyclical by nature and is vulnerable to the 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. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice are expected to help in curtailing the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, the cash flows from the sugar business.

Profitability of Uttar Pradesh-based sugar mills continues to depend on the state government policy on cane prices: DBOL'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. . Company's performance can be impacted by a disproportionate increase in the cane prices which are determined by the GoUP at the start of the crushing season. Furthermore, profitability of all sugar mills along with DBOL 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 the sugar prices and the liquidity of sugar mills. The continuation of government support measures like remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to keep sugar inventories under check and prevent the piling up of cane arrears

Liquidity: Adequate

The liquidity is marked by healthy accruals against the repayment obligations of the company. For FY24 & FY25, the scheduled repayment obligations are Rs. 77.20 crore and Rs. 76.37 crore which are expected to be comfortably met through cash accruals which are expected in the range of Rs 170-200 crores. The cash flow from operations is likely to remain healthy in the medium term with rise in revenue from distillery operations and a reduction in the sugar inventory levels.
The operating cycle decreased in FY23 to 134 days in FY23 as against 204 days in FY22 which was high in FY22 on account of significantly high inventory as the company could not liquidate the stock on account of sugar quota. As on March 31, 2023, sugar inventory stood at Rs. 498 crore (1.47 lac tons valued at average rate of Rs. 33.93/kg) as against Rs. 846 crore (2.58 lakh tons valued at average rate of Rs.32.76/Kg) as on March 31, 2022. Cane arrears were nil as on June 30, 2023.

Also, to be noted that the inventory days remain relatively high in comparison to other industries as manufacturing of sugar takes place during November to April, while sales take 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 of the working capital facilities for the twelve months ended May 31, 2023 stood at ~58%. The current ratio stood at 1.27x as on March 31, 2022 (PY: 1.26x)

ESG - NA

Applicable criteria

Rating Outlook and Credit Watch
Policy on default recognition
Rating methodology – Manufacturing companies
Rating methodology – Sugar sector
CARE Ratings' methodology for short-term instruments
Liquidity analysis of non-financial sector entities
CARE Ratings' methodology for financial ratios (non-financial sector)
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

Dhampur Bio Organics Ltd. was demerged from Dhampur Sugar Mills Ltd (DSML). vide a Scheme of Arrangement approved by the Board of Dhampur Sugar Mills Ltd. on the 7th of June 2021. This Scheme of Arrangement was ratified by the NCLT vide it's order dated 27th of April 2022. The said order became effective from May 03, 2022. The undivided company (Dhampur Sugar Mills Ltd.) was incorporated in 1933, when it established a 300 TPD sugar mill in Dhampur.
In March 2021, the promoters of the company, Mr. Gaurav Goel and Mr. Gautam Goel, jointly have decided to segregate the management and ownership of different manufacturing facilities/units for cane crushing, co-generation of power and chemicals, equally between the two promoter family groups. The company DSML had plants at 5 locations viz. Dhampur, Asmoli, Mansurpur, Rajpura and Meerganj. Now, with the scheme of arrangement, DSML will have Dhampur and Rajpura plants while DBOL will have Asmoli, Mansurpur and Meerganj plants.
DBOL has 3 plants in western-central Uttar Pradesh, India, which have a combined capacity to crush 26,000 MT of cane per day and produce 2000 MT of refined sugar and 800 MT of raw sugar per day.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	1,531.50	2,401.69	678.78
PBILDT	155.25	203.31	41.14
PAT	104.49	112.02	10.95
Overall gearing (times)	0.94	0.81	-
Interest coverage (times)	5.23	4.99	3.10

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

Status of non-cooperation with previous CRA: Not Applicable

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		-	-	-	690.00	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	31-03-2025	195.01	CARE A+; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	100.00	CARE A+; Stable

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	195.01	CARE A+; Stable	-	1)CARE A+; Stable (26-Jul-22)	-	-
2	Fund-based - LT-Working Capital Demand loan	LT	100.00	CARE A+; Stable	-	1)CARE A+; Stable (26-Jul-22)	-	-
3	Fund-based - LT-Cash Credit	LT	690.00	CARE A+; Stable	-	1)CARE A+; Stable (26-Jul-22)	-	-

*Long Term

Annexure-3: Detailed explanation of 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	Fund-based - LT-Working Capital Demand 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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