Uttam Sugar Mills Limited

February 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	899.51 (Enhanced from 783.15)	CARE BBB+; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	27.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The long-term ratings for the bank facilities of Uttam sugar mills Limited (USML) have been reaffirmed at CARE BBB+ and outlook has been revised from Stable to Positive. Further the short-term rating has been reaffirmed at CARE A2.
The revision in the outlook from 'Stable to Positive', reflects CARE Ratings expectation that the USML's credit risk profile will continue to improve in the medium term with enhanced accruals on the back of additional distillery capacity and consequently improving leverage and coverage indicators with minimal incremental debt and scheduled repayments.
The reaffirmation in the ratings assigned to the bank facilities of Uttam Sugar Mills Limited (USML) derives strength from its experienced promoters having long track record of operations in sugar industry and company's integrated nature of operations with presence into sugar, bagasse-based cogeneration and molasses- based distillery. The ratings also take cognizance of the timely completion of capex towards energy efficiency and capacity enhancement from 23,750 tons crushed per day (TCD) to 26,200 TCD for sugar and 200 kilo litres per day (KLPD) to 300 KLPD for ethanol in ongoing sugar season (SS) 2023-2024. The ratings also factor in the improvement in overall financial risk profile of the company characterized by growth in income, profitability, overall gearing and other debt coverage indicators during 9MFY24 (refers to period April 01 to December 31) owing to better sugar recovery of 9.64% in 9MFY24 compared to 9.52% in 9MFY23, increased realization for sugar and C-heavy ethanol for the SS 2023-24. Going forward, CARE Ratings expects the enhanced sugar and distillery capacity along with increased sugar and ethanol prices to drive the business growth in the company in near term over FY24 and FY25, which shall also remain a key monitorable from credit perspective.

These rating strengths, however, continue to remain constrained with working capital-intensive nature of operations and exposure towards cyclical and seasonal 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 around ₹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: Positive

The revision in the outlook from 'Stable to Positive', reflects CARE Ratings expectation that the company's credit risk profile will continue to improve in the medium term with envisaged cash accruals (GCA) in the range of Rs. 190-200 crores in FY24 and further Rs. 200-220 crores in FY25. Against this USML has low debt repayments and hence the coverage and leverage indicators are also expected to improve going forward which shall positively impact its credit profile. The growth in near term over FY24 and FY25 in the company is expected to be driven through the enhanced sugar and distillery capacity along with increased sugar and ethanol prices and cost optimisation. Th outlook may however be revised back to stable if the envisaged improvement in the financial profile does not come through in medium term.

Detailed description of the key rating drivers:

Key strengths

Sustained improvement in income and profitability through 9MFY24

The company has demonstrated sustained growth in FY23 and further during 9MFY24 to Rs. 1,587.93 crores (9MFY23: Rs. 1537.56 crores) with PBILDT margin of 11.93% and cash generation of around Rs. 121 crores (9MFY23: Rs. ~84 crores), which is largely derived from increased sugar prices from Rs. 3,638 in FY23 to Rs. 3,844 in 9MFY24 and higher sales volumes of ethanol of 467.78 lakh litres in 9MFY24 increased from 378.24 lakh litres in 9MFY23. Further, the adverse impact of increased sugarcane

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

prices, erratic rainfalls and restriction on diversion of B-heavy molasses and sugar syrup for ethanol production in ongoing SS is compensated through increasing sugar prices and increase in ethanol prices from C-heavy.

Improving financial risk profile
USML further reported improvement in financial risk profile of the company with improvement in overall gearing from 1.10 times as on March 31, 2023 to 0.71 times as on December 31, 2023 and interest cover of 4.86 times in 9MFY24 (FY23: 4.67 times) which stems from the better profitability generated by the company mainly on account of better realizations and cost saving from recently implemented energy efficiency programme. Total debt has also reduced from Rs. 676.37 crores as on March 31, 2022 to Rs. 623.37 as on March 31, 2023 and further to Rs. 467.00 crores as on December 31, 2023, CARE expects the total debt to remain in similar range of Rs. 650-700 crores level at year end for FY24 due to cane arrears at year end and inherent seasonality factor of sugar industry. Total outside liabilities to net worth stands at 1.77 times as on March 31, 2023 compared to 2.31 times as on March 31, 2022 and further expected to improve sequentially in FY24 and FY25 basis the enhanced sugar and distillery capacity, which would be available for the entire oncoming sugar season thereby generating higher sales, profitability and cash accruals and no significant debt funded capex envisaged in near future.

Forward integrated operations
USML's operations are forward integrated with bagasse-based cogeneration power of 122 MW and molasses-based distillery of 300 KLPD which provide alternate revenue streams and acts as a cushion against the cyclicality inherent in core sugar business to a large extent. USML presently operates four manufacturing plants situated at Libberheri (Roorkee, Uttarakhand), Barkatpur (Bijnor, U.P), Khaikheri (Muzaffarnagar, U.P) and Shermau (Saharanpur, U.P) with an overall aggregate crushing capacity of 26200 TCD as on December 31, 2023. Further, recovery of 10.41% in FY23 and 9.64% in 9MFY24 with ethanol production from c-heavy fetching better prices is expected to yield better sugar and ethanol production and higher profitability for the company in ongoing sugar season. Going forward, the operational metrics across all the segments are expected to remain healthy, which shall also remain a key monitorable from credit perspective.

Experienced promoters with long track record of operations in sugar industry
USML is managed by Mr. Raj Kumar Adlakha, Managing Director, who has about three and a half decades of experience in the sugar business. Mr. Raj Kumar Adlakha is further assisted by a team of professionals equipped in various spectrum of business including finance, manufacturing, distribution, marketing etc. USML presently operates four manufacturing plants situated at Libberheri (Roorkee, Uttarakhand), Barkatpur (Bijnor, U.P), Khaikheri (Muzaffarnagar, U.P) and Shermau (Saharanpur, U.P) with an overall aggregate capacity of 26,200 TCD, 122 MW and 300 KLPD as on December 31, 2023.

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, 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 December 31, 2023 stood at 72.71%.

Cyclical & regulated nature of sugar industry
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 favourable 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, marked with expected cash accruals of Rs. 190 - 200 crores in FY24 (out of which Rs. 121 crores achieved in 9MFY24) and further aided by cash and bank balance of Rs. 11.83 crores as on December 31, 2023 providing sufficient buffer to meet the term debt repayment obligations of close to Rs. 51.34 crores (out of which Rs. 38.04 crores have been already repaid till December 2023). Scheduled debt repayment obligation in FY25 and FY26 is ~ Rs. 40 crores and Rs. 46 crores respectively against healthy expected yearly cash accruals of more than Rs. 200-220 crores. The operating cycle of the company remained moderate and stood at the previous year levels only around 119 days in FY23 as the company has high inventory requirements due to sugarcane being a seasonal commodity and manufacturing of sugar takes place during November to April, while sales take place uniformly during the complete year. The average utilization of sanctioned working capital borrowings stood around 72.71% for the trailing twelve months ending with December 31, 2023. CARE ratings also continue to take note of Uttarakhand State Govt Soft Loan, which was towards the financial assistance to fund difference between SMP and SAP, the same remains unpaid continuously since 2011 due to non-recovery by the government and is also reported in the audit report since long.

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 unit where it offers a range of reliable self-help resources. Additionally, the Company offers personalized help from professional counsellors such as psychological counsellor 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

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

The erstwhile promoters of the company, M.K. Swarup along with his family members incorporated Associated Sugar Mills Limited on October 4, 1993. Mr. 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 26,200 TCD (tonnes of cane per day) and cogeneration capacity of 122 MW and ethanol production capacity of 300 KLPD (kilo litre per day) as on December 31, 2023

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	2,026.05	2,058.87	1,587.93
PBILDT	262.54	244.82	189.43
PAT	134.92	123.62	90.07
Overall gearing (times)	1.50	1.10	0.71
Interest coverage (times)	3.50	4.67	4.86

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		-	-	-	782.00	CARE BBB+; Positive
Fund-based - LT-Term Loan		-	-	December 2028	117.51	CARE BBB+; Positive
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*	117.51	CARE BBB+; Positive	1)CARE BBB+; Stable (05-Jul-23)	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	782.00	CARE BBB+; Positive	1)CARE BBB+; Stable (05-Jul-23)	1)CARE BBB; Stable (26-Sep-22)	1)CARE BBB-; Stable (21-Feb-22) 2)CARE BBB-; Stable	1)CARE BB+; Stable (06-Apr-20)

							(22-Sep-21) 3)CARE BB+; Stable (05-Apr-21)	
3	Non-fund-based - ST-BG/LC	ST*	27.00	CARE A2	1)CARE A2 (05-Jul-23)	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 Applicable

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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