Dhampur Sugar Mills Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Fixed Deposit	10.50 (Reduced from 35.00)	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the medium-term ratings assigned to the instrument of Dhampur Sugar Mills Limited (DSML) at CARE A+; Stable. Reaffirmation in the rating continues to derive strength from its well-established and long track record in the sugar industry, the forward-integrated nature of operations with the distillery and cogeneration power divisions mitigating the industry cyclicality to an extent, and healthy recovery rates. The rating also take cognisance of the timely completion of capex of 130 KLPD, including 100 KLPD of dual-based distillery, increasing total ethanol capacity to 350 KPLD. The rating also factors in the company's improved financial risk profile of the company characterised by improved overall gearing and other debt coverage indicators in FY23 (refers to period April 01 to March 31) and 9MFY24 (refers to period April 01 to December 31). CARE Ratings expects the enhanced distillery capacity and increased sugar prices to drive the long-term business growth in the company which shall remain a key monitorable from credit perspective. Also, CARE Ratings expects the current scenario of low cane availability and disruptions caused by restriction on diversion of syrup and B-heavy towards ethanol, which is partly compensated through increase in prices of C-heavy and grain based ethanol, to moderate revenue and profitability in FY24 and FY25 as well. These rating strengths will continue to remain constrained with working capital-intensive operations and exposure towards cyclical and seasonal sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing scale of operations and improved revenue and geographic diversification in operations on sustained basis.
- Improving capital structure with overall gearing below 0.5x and total debt (TD)/, profit before interest, lease rentals, depreciation and taxation (PBILDT) below 2x on sustained basis.

Negative factors

- Significant debt-funded capex or declining in profitability, leading to TD/PBILDT above 3.5x on a sustained basis.
- Declining profitability margins, as marked by PBILDT margin below 10%, leading to a moderation in the interest coverage indicators 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 rated entity is likely to maintain its market position and financial risk profile backed by integrated business model.

Detailed description of the key rating drivers:

Key strengths

Forward integrated operations and diversified revenue stream with increasing focus on Ethanol production to aid inventory management: DSML's operations are forward integrated into cogeneration and distillery operations that de-risk the company's core sugar business to some extent. DSML, post the demerger, operates the Dhampur and Rajpura units with 24,000 tonne crushed per day (TCD) of sugar capacities in Uttar Pradesh, which are forward-integrated into the power and alcohol business with a cogeneration capacity of 126.50 megawatt (MW) and distillery capacity of 350 kilolitre per day (KLPD) as on December 31, 2023. In FY23, the sugar segment contributed 55% of the gross revenue while the balance was from other segments. However, the distillery segment (including chemicals and potable spirits) accounted for 72% of earnings before interest and tax (EBIT) in FY23, and sugar and power, respectively, accounted for 27% and 38%, respectively. The higher contribution from the non-sugar segments augurs well for DSML's overall profitability, as its EBIT margins are relatively more stable than that

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

of the sugar segment. DSML produced ethanol using B-heavy molasses and Syrup, and in FY23, DSML sold 8.98 BL Crores litres of ethanol (PY: 6.95 BL), of which 3.21 Crores litres was generated through the B-Heavy and 6.18 Crores litres from syrup routes. However, pursuant to the ban on utilisation of B-heavy molasses and Sugarcane syrup for ethanol production from December 2023 onwards, the company will be producing ethanol using C-heavy molasses or grains. The impact of the same on the operational profile of the company remains key monitorable.

Improvement in operations in FY23; though, moderate revenue and profitability in 9MFY24: Notwithstanding the reduction in scale, post the demerger, DSML remains one of the leading sugar manufacturers in India with a healthy and integrated business profile and a long track record of operations. The total operating income in FY23 increased by 25% to ₹2405.27 as against ₹1917.50 crore in FY22. DSML crushed cane of 39.01 lakh tonne in FY23 vis-à-vis 35.83 lakh tonne in FY22, while the company sold 3.89 lakh tonne of sugar in FY23 (PY: 2.79 lakh tonne). The profitability margin moderated to 12.22% in FY23 from 14.23% in FY22 mainly due to wage revision and increase in molasses levy which increased to 20% from 18%. Higher diversion towards B-heavy ethanol and increased realisation from ethanol segment wherein the y-o-y average realisations from that segment increased by 50-52% in FY23 and 9MFY24 has aided profitability. During 9MFY24, DSML has reported sub-dued performance with TOI of ₹1,627.28 crore as against ₹1,757.14 crore in 9MFY23 on account of lower cane availability and less diversion of surgarcane syrup and B-heavy molasses towards ethanol production. DSML has completed the expansion of its distillery capacity by 130 KLPD on "C" heavy molasses, including 100 KLPD of grain based, which will further aid the TOI and profitability considering the company will not be able to fully utilise its ethanol capacity of 220 KLPD which uses B-heavy molasses and syrup for ethanol production. The company also remains exposed to raw material availability which can be impacted due to red rot and unseasonal and heavy rainfall as was seen in the recent past.

However, the adverse impact of increased sugarcane prices, erratic rainfalls and restriction on diversion of B-heavy molasses and sugar syrup for ethanol production in ongoing SS is partially compensated through increased sugar prices and increase in ethanol prices from C-heavy and grain.

Comfortable financial risk profile: As on March 31, 2023, the overall gearing stood at 0.72x as compared to 1.00x as on March 31, 2022. The Total debt has also reduced as on March 31, 2023 to ₹744 crore (of which ₹442 crore is working capital borrowing while the rest is term loan and lease liability) and as on December 31, 2023 to ₹514.79 crore. The capital expenditure notwithstanding, the Company is proceeding to a lower term debt. Out of the total long-term loans of ₹262 crore, about 50% was under interest-subvention schemes announced by the government towards the development of the sugar industry, leading to lower effective interest cost. As a result, the interest coverage remained healthy at 6.43x in FY23 (FY22: 5.36x). Despite the weakening of its EBDITA margins, the interest coverage stood at 6.89x in 9MFY24 and is expected to remain healthy over the medium term. Total outside liabilities to net worth stands at 1.17x as on March 31, 2023 compared to 1.62x as on March 31, 2023 and further expected to improve sequentially in FY24 and FY25 based on 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.

Experienced promoters and long track record of operations: Post demerger, DSML is headed by AK Goel and Gaurav Goel. The company has been operating in the sugar industry for over nine decades. Gaurav Goel has been affiliated with DSML and has served on its board since 1994. He is a business management graduate from the American College of London, UK, and an alumnus of the Harvard Business School. He has over 28 years of experience in the sugar industry and has been the President of the Indian Sugar Mills Association (ISMA) and Chairman of the Indian Sugar Exim Corporation Limited in 2017-18. He was the President of the Entrepreneurs' Organisation (EO), Delhi in 2006-2007; Chair of the Young Presidents' Organisation (YPO), Delhi, 2012-2013; and the YPO Greater India Chapter in 2015-2016.

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, 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 for the 12 months period ended January 31, 2024 stood at 26.54%. The operating cycle stood at 120 days in FY23 (PY: 192 days).

Cyclical and regulated 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 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. DSML's profitability, along with other Uttar Pradesh-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. 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. Recent ban announced in December 2023 curtailing usage of B-heavy molasses and Sugarcane syrup towards ethanol production is likely to increase sugar production.

Liquidity: Adequate

The liquidity is marked by healthy accruals against the repayment obligations of the company. For Q4FY24, the scheduled repayment obligations are around ₹11 crore out of the total scheduled repayments for FY24, which stood at ₹45 crore. The debt repayments due in FY25 and FY26 are ₹79 crore and ₹83 crore, respectively. The total cash and equivalents stood at ₹74.5 crore as on December 31, 2023. The cash flow from operations is likely to remain healthy in the medium term with robust profits and a reduction in the inventory levels. The operating cycle stood at 120 days in FY23 as compared with 192 days in FY22 on account of reduction in the inventory days which reduced from 240 days to 130 days in FY23. As on March 31, 2023, sugar inventory stood at ₹394.80 crore (1.20 lakh tons valued at average rate of ₹32.90/Kg). Subsequently, sugar inventory stood at ₹395.31 crore (1.07 lakh tons valued at average rate of ₹36.89/kg) as on December 31, 2023. Also, notably, the inventory days remain relatively high in comparison to other industries, as manufacturing of sugar takes place from November to April, while sales take place uniformly during the complete year and due to the imposition of the sales quota on sugar companies, which led to high inventory days. The average utilisation of the working capital facilities for the 12 months ended January 31, 2024, stood at around 27%. The current ratio stood at 1.18x as on March 31, 2023 as against 1.12x as on March 31, 2022.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Sugarcane is an agri-commodity and prone to climatic risks. The climatic conditions along with pests' attacks and other factors, can affect sugarcane productivity, recovery and in turn have an impact on an entity's profitability. However, the company's sugar facilities are in Dhampur, UP, with adequate availability of cane, thereby mitigating the climatic risks to a certain extent. DSML is also exposed to the risks arising from tightening regulations regarding discharge or treatments of effluents. However, DSML has installed latest equipment to control air and water pollution and maintain Zero Liquid Discharge from the Distilleries.

Environmental: Over the years, DSML has strengthened its environmental practices. The Company took measures in the area of water conservation through rainwater harvesting. The Company developed rainwater harvesting system for every area (plant and godown). Conducted activities related to green belt development including plantation initiatives.

Social: DSML's corporate social responsibility activities comprise education, sports, good agricultural practices, skill development, women's empowerment, healthcare / sanitation, rural development and environment sustainability. Further, DSML focusses on Health & Safety of employees (HSE). Its HSE policy enhances employee safety and ensures that environment protection maintains product value. The Company's HSE philosophy reconciles zero accidents, zero breakdowns, zero defects and zero loss, translating into positive outcomes.

Governance: DSML has been practicing the principles of good corporate governance over the years and lays strong emphasis on transparency, accountability and integrity. As on March 31, 2023, the Board comprised eight directors. Besides Chairman, Managing Director who are Executive Promoter Directors, the Board has one Whole Time Director, Five Non – Executive Independent Directors including one Non Executive Independent Woman Director.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Sugar
Financial Ratios – Non financial Sector

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

DSML is promoted by the Goel family of Bareilly, Uttar Pradesh. In March 2021, the promoters of the company, Gaurav Goel and Gautam Goel, jointly decided to segregate the management and ownership of different manufacturing facilities and units, equally between the two promoter family groups. Consequently, the board of directors, in its meeting on June 07, 2021, approved a scheme of arrangement for the demerger of the business units of Asmoli, Mansurpur, and Meerganj into Dhampur Bio Organics Limited (resulting company). This scheme of arrangement was ratified by the NCLT vide its order dated April 27, 2022. The said order became effective from May 03, 2022. As on December 31, 2023, DSML has a total sugar capacity of 24,000 TCD, 126.5

MW of power, and 350 KLPD of ethanol. In FY23, the Company has successfully completed expansion of its distillery capacity by 130 KL per day on C-heavy molasses at Dhampur, UP.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,917.50	2,405.27	1,627.28
PBILDT	272.82	294.01	191.24
PAT	146.95	150.30	81.22
Overall gearing (times)	1.00	0.72	0.46
Interest coverage (times)	5.36	6.43	6.89

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
Fixed Deposit	-	-	7.50-9.50%	31-03-2026	10.50	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-Cash Credit	LT	-	-	-	1)CARE A+; Stable (06-Mar-23) 2)Withdrawn (06-Mar-23) 3)CARE A+; Stable (22-Jul-22)	1)CARE A+ (CW with Developing Implications) (01-Nov-21) 2)CARE A (CW with Developing Implications) (16-Jun-21)	1)CARE A; Stable (06-Oct-20)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Stable	1)CARE A+ (CW with	1)CARE A; Stable

						(06-Mar-23) 2)Withdrawn (06-Mar-23) 3)CARE A+; Stable (22-Jul-22)	Developing Implications) (01-Nov-21) 2)CARE A (CW with Developing Implications) (16-Jun-21)	(06-Oct-20)
3	Fixed Deposit	LT	10.50	CARE A+; Stable	-	1)CARE A+; Stable (06-Mar-23) 2)CARE A+; Stable (22-Jul-22) 3)CARE A+ (CW with Developing Implications) (22-Jun-22)	1)CARE A+ (FD) (CW with Developing Implications) (01-Nov-21) 2)CARE A (FD) (CW with Developing Implications) (16-Jun-21)	1)CARE A (FD); Stable (06-Oct-20)

LT: Long term; ST: Short term; LT/ST: 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	Fixed Deposit	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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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