

Bajaj Hindusthan Sugar Limited (Revised)

April 01, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long term - Optionally convertible debentures	3,483.25	CARE BB-; Stable	Assigned
Long-term bank facilities -1	315.71 (Reduced from 4,234.00)	CARE BB-; Stable	Revised from CARE D ; Stable outlook assigned
Short-term bank facilities	223.59 (Reduced from 235.57)	CARE A4	Revised from CARE D
Long-term bank facilities -2 [#]	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

#The company has provided confirmations from lenders with respect to cancellation of cash credit facilities and based on the same, CARE Ratings Limited has withdrawn rating to the said facilities.

Rationale and key rating drivers

The revision in ratings assigned to bank facilities of Bajaj Hindusthan Sugar Limited (BHSL) takes into account the delay-free track record of more than three months (since December 2023) in servicing the debt & interest obligations and withdrawal of insolvency petition in October 2023, which was earlier filed by one of its lenders, State Bank of India (SBI) with Honourable NCLT - Allahabad, partially improving operational performance in FY23 and 9MFY24 and significant reduction in cane farmer dues.

Ratings continue to remain constrained by BHSL's weak financial profile characterized by its leveraged capital structure, contingent liability on account of yield to maturity (YTM) payable at the time of redemption of optionally convertible debentures (OCDs), stretched liquidity, substantial investment in group companies and cyclical and regulated nature of sugar business. Ratings take note of the promoter's long track record of operations in the sugar industry and BHSL's diversified revenue profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving overall operational performance of the company leading to substantially improving financial risk profile and effective management of its working capital and improvement in its liquidity position.
- Company recouping its advances & investments from the group companies in a timely manner and reducing its overall debt exposure from funds so received.

Negative factors

- Stretching of working capital or liquidity position of the company.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited (CARE Ratings') expectations that the company's operational performance going forward should improve with the substantial repayment of the cane arrears which should also lead to improvement in its overall financial profile.

Detailed description of the key rating drivers:

Key weaknesses

High contingent liability on account of YTM payable at the time of redemption

The statutory auditor of BHSL in the audit report for FY23 and earlier years has provided qualification with respect to non-provision of premium payable on OCDs at the time of redemption to lenders pursuant to the Scheme for Sustainable Structuring of Stressed Assets (S4A Scheme) which stipulates that the YTM being the difference between weighted average interest and coupon rate payable as redemption premium at the time of redemption of OCDs redeemable in 13 equal annual instalments commencing from the FY25. BHSL considers such YTM/redemption premium as contingent liability and has not provided for the same in the books of account for the year ended March 31, 2023, amounting to ₹478.61 crore. The aggregate liability for such YTM from the date

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

of allotment of OCDs till December 31, 2023, is ₹2,719.63 crore. The outstanding amount of OCD's as on date stands at ₹3,483.25 crore. The said YTM is payable as premium on redemption along with relevant principal amount on each repayment date. These OCDs are repayable in 13 equal annual instalments with first instalment due in March 2025. However, as per debenture trustee deed for OCDs, there is a provision of conversion of these OCD's into equity shares of BHSL. CARE Ratings will closely monitor the developments regarding the same.

Weak financial profile but some improvement registered in FY23 and 9MFY24

The total operating income of the company improved by around 13.16% from ₹5,569.09 crore in FY22 to ₹6,302.32 crore in FY23 while net loss reduced from ₹218.25 crore in FY22 to ₹147.74 crore in FY23. As a result, the company reported positive gross cash accruals (GCA) for FY23. The profit before interest, lease rentals, depreciation and tax (PBILDT) improved by around 13% to ₹255 crore in FY23. Owing to improvement in PBILDT coupled with reduction in interest cost, interest coverage of the company (PBILDT/Interest) improved from 0.89x in FY22 to 1.21x in FY23. Total debt decreased from ₹4,792 crore as on March 31, 2022 to ₹4,246 crore as on March 31, 2023. The same comprised of long-term loans of ₹751 crore, OCDs of ₹3,483.25 crore, loan from related parties of ₹9 crore and financial lease liability of ₹2 crore. In FY23, the company repaid term debt to the tune of ₹544.36 crore from the operational cashflows. Till February 2024, the company has repaid its entire term debt obligations for the FY24 amounting to ₹435.40 crore. The overall gearing has improved from 1.67x as on March 31, 2022 to 0.94x as on March 31, 2023, which was mainly due to mark up of prior investments made by the company leading to increase in networth and also partially due to decrease in total debt. Interest coverage ratio (PBILDT/Interest) improved in FY23 to 1.21x as against 0.89x for FY22. Even though both overall gearing and interest coverage have improved, they continue to remain weak.

Substantial investment in group companies

The group has implemented a power project under Bajaj Energy Ltd (BEL) and commissioned a 1,980 MW project under Lalitpur Power Generation Company Limited (LPGCL). BHSL had invested a substantial amount in its group companies by way of investments and loans & advances. As on March 31, 2023, on standalone basis, the company has exposure aggregating to ₹5,256 crore, by way of investments, loans, accumulated interest on these loans (FY22: ₹2,951 crore). The above increase is entirely due to improving fair value of the investments and BHSL has not made any further investment in the year. Inability of BHSL to recover these advances in a timely manner in the past has led to its poor liquidity position. Recoverability of these advances shall be crucial to improve the liquidity position of BHSL. However, BHSL has received ₹2,361 crores (₹1,000 crores in FY22 and ₹1,361 crores in FY23) from Uttar Pradesh Power Corporation Limited (UPPCL) from receivables of one of its group companies, LPGCL which has been used for payments to cane farmers.

Separately, BHSL was expecting to get some funds from divestment of minority stake in power business through the proposed IPO of BEL. However, due to the delay in launching the IPO the validity of Securities and Exchange Board of India's (SEBI's) approval for BEL's DRHP has expired and the plan of BEL's IPO has currently been withdrawn by the promoters.

Cyclical and 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.

Key strengths

Regularisation of debt repayments and reduction in cane payment arrears

The company has regularized all debt payments since November 2022 but the account was classified as non performing asset (NPA) with SBI and few other lenders due to insolvency petition filed by SBI earlier. In October 2023, the lead lender, SBI filed application for withdrawal of insolvency petition which it had filed earlier. The same has been withdrawn as per order of the Honourable NCLT - Allahabad dated October 25, 2023. In November 2023, SBI upgraded BHSL from NPA to standard category. Considering this, five other lenders have already upgraded account status from NPA to Standard in December 2023 to February 2024. CARE Ratings has noted delay free track record since December 2023 to February 2024 and there in few instances of penal interest were noticed but were technical in nature as confirmed by lenders and not due to any delay in the period from December 2023 to February 2024. Currently out of 12 lenders, 11 have classified the account as standard and one lender namely IDBI Bank continues to classify it as NPA. As per the company, IDBI Bank is in process to upgrade the account which shall be done in due course.

In October 2023, UPPCL has transferred ₹1,361 crore from the receivables of one of its group companies, LPGCL to BHSL for payment of sugarcane farmer dues pursuant to amendment in UP Sugarcane (Regulation of Supplies and Purchase) Act, 1953. The said amount is paid to the cane growers for the cane payment arrears for the sugar season 2022-23. After above payment,

sugarcane farmer dues as on December 31, 2023 for Sugar season 2022-23 is ₹1,707 crore. Additionally, as on December 31, 2023, the inventory is ₹1,164 crore, therefore, the net cane liability is around ₹543 crore.

Earlier, even in February 2022, UPPCL transferred ₹1,000 crore to BHSL from receivables of LPGCL. Currently, as on date, there are no cane liabilities outstanding for sugar seasons 2021-22 and 2022-23.

Diverse revenue stream

BHSL is majorly into the production of sugar however it has diversified operations with other business like manufacturing of alcohol and power, which de-risk the core sugar business of the company to some extent. BHSL has 14 sugar factories with an aggregate capacity of 1.36 lakh tonne of sugarcane crushed per day (TCD). It has six distilleries with capacity to produce 800 kilo litre per day (KLPD) of industrial alcohol and owns co-generation plants having power generating capacity of 449 MW.

In FY23, the segment-wise gross contribution to operating income stood at sugar – 76% (PY : 76%), distillery – 12% (PY: 13%) and power segment – 11% (PY:10%). In FY23, the company crushed 13.842 million metric tons (MMT) of sugarcane as against 12.589 MMT in the previous year. The sugar recovery was 9.74% as against 10.36% in the previous year. In FY23, the company has used 10.20 MMT (73.69%) sugarcane for producing B-heavy molasses owing to which sugar recovery was lower.

Liquidity: Stretched

The company has regularized all the debt payments including coupons on OCDs and there are no outstanding over dues as on February 29, 2024. In October 2023, UPPCL has transferred ₹1,361 crore from the receivables of LPGCL to BHSL for payment of sugarcane farmer dues. After above payment, sugarcane farmer dues as on December 31, 2023, for Sugar season 2022-23 is ₹1,707 crore. As on December 31, 2023, the inventory is ₹1,164 crore, therefore, the net cane liability is ₹543 crore. Currently, as on date, there are no cane liabilities outstanding for sugar seasons 2021-22 and 2022-23. The liquidity position of the company remains stretched with free cash and bank balance to the tune of ₹41.91 crore as on September 30, 2023. For FY24, the company has repaid entire term debt obligation of ₹ 435.40 crore upto February 29, 2024 and is expected to repay the balance pending term loan ₹315.72 crore in FY25. It is expected that the company will be able to meet its near-term debt obligations without any delays from its cash flows. However, OCDs' redemption along with YTM payable will begin from FY25 onwards with the first instalment due in March 2025 and are repayable in 13 equal annual instalments. Currently, the gross cash accruals of BHSL are inadequate to meet the OCD annual instalment along with YTM payable. Accordingly, the company may have to rely on stretching the cane dues to meet the repayments of these OCDs. However, as per debenture trustee deed for OCDs, there is a provision of conversion of these OCD's into equity shares of BHSL. CARE Ratings will closely monitor the developments regarding the same.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Sugar](#)

[Financial Ratios – Non financial Sector](#)

[Policy On Curing Period](#)

[Withdrawal Policy](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food and other products	Sugar

BHSL, a part of the 'Shishir Bajaj Group' is Asia's No.1 and World's No.4 Integrated Sugar Company. With an extensive network of 14 mills dotted across Uttar Pradesh in North India, the company has an aggregate sugarcane crushing capacity of 136,000

tonnes crushed per day (TCD). Besides Sugar, BHSL is also a leading manufacturer of ethanol. It has six distilleries with capacity to produce 800 kilo litre per day (KLPD) of industrial alcohol and owns 14 co-generation plants having power generating capacity of 449 MW.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	5,569.09	6,302.32	4,214.05
PBILDT	225.66	254.93	95.91
PAT	-218.25	-147.74	-185.41
Overall gearing (times)	1.67	0.94	NA
Interest coverage (times)	0.89	1.21	

A: Audited, UA: Unaudited, NA: Not available; 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 to 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: Please refer to Annexure-4

Lender details: Please refer to 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	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	30-09-2024	315.71	CARE BB-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	223.59	CARE A4
LT - Optionally convertible debentures	INE306A08EV6	18-12-2017	-	31-03-2037	3483.25	CARE BB-; 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	315.71	CARE BB-; Stable	-	1)CARE D (08-Mar-23)	1)CARE D (24-Dec-21)	1)CARE D (19-Jan-21) 2)CARE B+; Positive (14-Sep-20) 3)CARE B+; Stable (23-Jun-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE D (08-Mar-23)	1)CARE D (24-Dec-21)	1)CARE D (19-Jan-21) 2)CARE B+; Positive (14-Sep-20) 3)CARE B+; Stable (23-Jun-20)
3	Non-fund-based - ST-BG/LC	ST	223.59	CARE A4	-	1)CARE D (08-Mar-23)	1)CARE D (24-Dec-21)	1)CARE D (19-Jan-21) 2)CARE A4 (14-Sep-20) 3)CARE A4 (23-Jun-20)
4	LT - Optionally convertible debentures	LT	3483.25	CARE BB-; Stable	-	-	-	-

LT: Long term; ST: 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	Long Term-Optionally Convertible Debentures	Simple
4	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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