Uttam Sugar Mills Limited

June 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	895.47 (Reduced from 899.51)	CARE BBB+; Positive	Reaffirmed
Short Term Bank Facilities	27.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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 reflecting ability of the company to wither out the industry cyclicality.

The ratings also derive strength from the sustained healthy scale of operations, profitability and cash accruals generated during FY24 (refers to period April 01 to March 31) despite recent government measures regarding restriction on export and diversion of sugar syrup and B-heavy molasses towards ethanol production for the sugar season 2023-24 to manage the situation of low cane availability in the country, risen out of erratic rainfall during the year. However, sugarcane production remained higher than initial govt estimates, which along with other factors led to higher sugar stock across the industry at year end, which is a regular industry phenomenon being a govt regulated industry. The ratings also factor in the comfortable financial risk profile of the company characterized by sequential improvement in gearing profile, interest cover and other debt coverage indicators during FY24 owing to satisfactory sugar recovery of 10.49% in FY24, 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, which shall also remain a key monitorable from credit perspective.

CARE Ratings also take cognizance of the proposed majority stake acquisition of 58.33% in group entity Uttam Distilleries Limited (UDL) operating a grain- based distillery of 40 kilo litres per day (KLPD). The said acquisition will cost around Rs. 35 crores and shall conclude October 2024 and give business synergy to USML as it's already in the business of ethanol manufacturing.

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 ₹190-220 crore.
- Improvement in total outstanding liabilities (TOL) to tangible net worth (TNW) 1.00-1.20x 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

Continuation of positive outlook assigned for the long-term bank facilities of USML reflects CARE Ratings expectation that the company's credit risk profile will continue to improve sequentially in the medium term. Against the sustained healthy cash accruals, USML has low debt repayments and capex commitments. Therefore, the coverage and leverage indicators are expected to improve going forward which shall positively impact its credit profile. The outlook may however be revised back to stable if the company achieves lower than envisaged accruals in medium term which may impact the debt protection metrics of the company.

Detailed description of the key rating drivers:

Key strengths

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

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

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 March 31, 2024.

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, sugar recovery was at 10.49% in FY24 against 10.60% in FY23. In SS 2023-24, Govt restricted the diversion of sugar syrup and B-heavy molasses towards ethanol production, however, to compensate the adverse impact, realization of c-heavy ethanol increased by Rs. 6.87 from Rs. 49.41 per litre to Rs. 56.28 per litre for ESY 2024-25, which helped the sugar companies to sustain their profitability 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.

Healthy profitability and scale of operations
USML has reported sustained scale of operations with total operating income of Rs. 2,046.86 crores in FY24 compared to Rs. 2,058.87 crores in FY23, the slight decline pertains mainly to the lower cane availability owing to erratic rainfall during the year causing low cane availability resulting into lower cane crushing, ban on sugar export by govt for SS 2023-24 and govt restriction on diversion of sugar syrup and B-Heavy towards ethanol. Total cane crushed during the year under consideration was 404.98 lakh quintals compared to 424.6 lakh quintals in preceding year whereas sugar recovery remained satisfactory at 10.49% (PY: 10.60%). Sugar sales was partially impacted by the ban on sugar export by the govt as the export sale in FY23 was 14.92 lakh quintals which reduced to Nil in FY24, whilst support derived from rising sugar realization, which stood at Rs. 3,862 per quintal in FY24 increased from Rs. 3,638 per quintal in FY23. USML's distillery segment revenue grew by ~16% in FY24 to Rs. 373.35 crores which is partially accredited from increased sales volumes from 545.20 lakh litres in FY23 to 652.83 lakh litres in FY24 and improved realizations from Rs. 58.90 per litre to Rs. 59.58 per litre in FY24.
CARE believes that with the availability of enhanced crushing capacity for full year FY25, enhanced distillery capacity, healthy sugar recovery % and increased sugar and ethanol prices would drive the growth in FY25 also. Thus, going forward, ability of the company to report healthy revenue, profitability and cash generation in full year FY25 shall remain critical from credit perspective.

Moderate albeit improving financial risk profile
The capital structure of the company remained leveraged with high dependence on working capital borrowings due to seasonal nature of sugar industry and high inventory requirements albeit improvement in overall financial risk profile is demonstrated with better profit generation and strengthened net worth position year on year whereas the total debt stood at Rs. 784.40 crores as on March 31, 2024 represented through overall gearing from 1.13 times as on March 31, 2024 (PY: 1.10 times) and interest coverage of 4.77 times (PY: 4.67 times). Furthermore, the company has already commissioned debt funded capex in sugar and distillery segment in Q3FY24 with a total outlay of Rs. 116 crores funded through debt of Rs. 84 crores (repayable through 2029) and remaining from internal accruals, the enhanced cane crushing capacity would also result into reduction in steam consumption thereby saving in cost (approx. Rs. 3 crores annually for 3 years) and better profitability going forward.
Further, USML is exploring the avenues for entering grain-based ethanol distilleries and hence proposed to acquire majority stake of 58.33% in UDL. This acquisition will give business synergy to USML as it's already in the business of Ethanol / ENA manufacturing. The investment would cost around Rs. 35 crores out of which Rs. 13.10 crores were invested in FY24 and remaining Rs. 21.90 crores shall be infused in FY25 out of internal accruals of the company. This apart, there are no major capital expenditures that USML is planning in medium term and hence leverage, and coverage indicators are expected to remain comfortable.

Key weaknesses
Working capital intensive operations due to seasonal nature of sugar industry
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 operating cycle of the company remained moderate and stood slightly elongated at 146 days as on March 31, 2024 from 119 days as on March 31, 2023 owing to elevated sugar inventory level of 183 days (PY: 167 days) as closing sugar inventory increased by 2 lakh quintals from 21.33 lakh quintal as on March 31, 2023 to 23.33 lakh quintals as on March 31, 2024 mainly due to sugar sales quota and low sugar diversion towards ethanol due to restriction imposed by govt on diversion of sugar syrup and B-heavy towards ethanol.

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 close in the range of to Rs. 180-190 crores in FY25, Rs. 200-220 crores in subsequent years providing sufficient buffer to meet the scheduled term debt repayment obligations of close to Rs. 38 crores in FY25. The working capital requirements of the company is met by sanctioned limit of Rs. 782 crores with an average utilisation for the trailing 12 months period ended with April 30, 2024 of 76.78% leaving adequate buffer in form of unutilised limits to absorb any fluctuation in demand and prices. CARE ratings also continue to take note of Uttarakhand State Govt Soft Loan (Loan o/s Rs. 6.57 crores (PY: 6.57 crores) and interest accrued Rs. 5.04 crores as on March 31, 2024 (PY: Rs. 4.77 crores)), which was towards the financial assistance to fund difference between SMP and SAP, the same remains unpaid continuously since 2011 due to non-demand and 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

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

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 March 31, 2024.

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	2,058.87	2,046.86
PBILDT	244.82	265.82
PAT	123.62	132.21
Overall gearing (times)	1.10	1.13
Interest coverage (times)	4.67	4.77

A: Audited; 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		-	-	-	807.00	CARE BBB+; Positive
Fund-based - LT-Term Loan		-	-	December 2028	88.47	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 2024-2025	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
1	Fund-based - LT-Term Loan	LT*	88.47	CARE BBB+; Positive	-	1)CARE BBB+; Positive (19-Feb-24) 2)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)

2	Fund-based - LT-Cash Credit	LT	807.00	CARE BBB+; Positive	-	1)CARE BBB+; Positive (19-Feb-24) 2)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)
3	Non-fund-based - ST-BG/LC	ST*	27.00	CARE A2	-	1)CARE A2 (19-Feb-24) 2)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)

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	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:

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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