Dhampur Bio Organics Limited

July 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long- term bank facilities	1,019.45 (Enhanced from 985.01)	CARE A; Stable	Revised from CARE A+; Stable
Short-term bank facilities	115.00	CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the long-term rating for the bank facilities of Dhampur Bio Organics Limited (DBOL) and simultaneously assigned the short-term rating for its short-term bank facilities. The revision in the long-term rating considers the moderation in the company's financial risk profile marked by decline in the total operating revenue, profitability, leverage, and coverage indicators in FY24 (refers to period April 01 to March 31) owing to the lower sales volume registered in both the sugar and ethanol segments, elevated inventory levels, and increased working capital debt requirement during the year. The same is considering the government's ban on sugar exports for the sugar season 2023-24 (SS23-24) to ensure sufficient domestic supply, reduced sales quota allocation, and restrictions on the diversion of sugar syrup and B-Heavy towards ethanol.

The rating continues to derive strength from its experienced promoters with long track record in the sugar industry, forward integrated nature of operations with presence into distillery and cogeneration power divisions mitigating the industry cyclicality to an extent.

However, these rating strengths are partially offset by cyclical and regulated nature of the industry, demand-supply dynamics, exposure towards the agro-climatic conditions, and the working capital-intensive nature of the operations.

CARE Ratings Limited (CARE Ratings) expects an improvement in the company's financial and operational metrics in line with the liquidation of inventory in the near term. However, it remains constrained by the quota allocation driven by the government. Drop in operating profits and high debt levels breached the negative sensitivities entailing increase in the overall gearing (above 1.0x), decline in the profitability margins (below 8%), and negative cashflows in FY24 due to adverse changes in government policies. Additionally, the company has also deferred its greenfield project of B-heavy distillery at the Meerganj unit until further consideration and instead will incur a marginal capex for the conversion of its existing capacity into dual feed capacity (100 KLPD) funded by a mix of internal accruals and debt expected to be operationalised by the end of Q3FY25.

Rating sensitivities: Factors likely to lead to rating actions

- The company's ability to report healthy growth in total operating income (TOI) with profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 10% backed by healthy recovery rates on a sustained basis.
- Improving total outside liabilities to tangible net worth (TOL/TNW) below 1x on a sustained basis.

Negative factors

- Increasing overall gearing above 1.2x on a sustained basis.
- Declining revenue from the existing level and profitability margins as marked by PBILDT margin below 6%.
- Adversely changing government policies affecting the operations and cash flow of the entity.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that DBOL's operational metrics and credit risk profile will improve in near to medium term in line with rise in sugar and ethanol prices and the expected relaxation by the government with respect to the export of sugar or diversion towards the ethanol.

Detailed description of key rating drivers:

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

Key strengths

Experienced promoters with long track record of operations in sugar industry

DBOL is headed by Vijay Kumar Goel as the company's Chairman and Gautam Goel as the Managing Director. VK Goel has served as a promoter director on the board since 1960. He has also been the President of Indian Sugar Mills Association and the Indian Sugar Export Corporation, and with over 65 years of experience in the sugar industry, he has spearheaded several technological innovations in the industry.

Gautam Goel has been on the Board since 1994. He is currently serving his second stint as an office bearer in Indian Sugar and Bio-energy Manufacturers Association (ISMA) as Vice President, and has served as the President of ISMA, and the Chairman of Indian Sugar Exim Corporation in 2012. He has focused on value-addition, which included pioneering the production of sulphur-less refined sugar in India.

Forward integrated operations resulting in diversified revenue streams

DBOL's sugar division is fully integrated with forward integration into cogeneration unit of 95.50 megawatts (MW) and a molasses-based distillery of 312.5 KLPD, which post the part-conversion (of 100 KLPD) will become a dual feed molasses and grain-based distillery. DBOL's forward integrated operations de-risk it by providing alternate revenue streams and acts as a cushion against the inherent cyclicality in core sugar business to a large extent. The company operates three plants in Asmoli, Mansurpur, and Meerganj (part of western-central Uttar Pradesh) and commissioned additional units in November 2023, augmenting its capacity in Asmoli from 9000 TCD to 12500 TCD and in Meerganj from 5000 TCD to 9000 TCD, increasing the overall aggregate capacity from 22,000 TCD to crush 29,500 TCD as on March 31, 2024.

In FY24, the sugar segment accounted for about 59% of the gross operating revenue, followed by country liquor (22%) and bio fuels & spirits (19%). The contribution from the sugar segment reduced from 73% in the previous year which is attributable to the lower government driven sales quota allocation and the ban on the sugar exports. CARE Ratings observes, the contribution from the sugar segment is expected to increase as the company liquidates its inventory, which shall also remain a key monitorable from credit perspective.

Comfortable financial risk profile though slightly moderated in FY24

The company's capital structure remained leveraged in FY24 with high dependence on working capital borrowings due to high inventory on the books, consequent elongation in the operating cycle and the seasonal working capital requirements of the sugar industry. The TNW stood at ₹1,021 crore, whereas the total debt position was at ₹1,057 crore, out of which the term debt reduced Y-o-Y and stood at ₹241 crore as on March 31, 2024, attributable to the company's scheduled debt repayments. However, the overall gearing moderated and remained comfortable to 1.04x as on March 31, 2024, against 0.81x in the previous year majorly considering the substantial increase in the working capital debt. Due to the moderation in the operating profitability, the PBILDT interest coverage and other coverage indicators deteriorated to 2.76x as on March 31, 2024, as against 4.99x as on March 31, 2023.

The company will be undertaking a minor capex for the part conversion of its molasses-based distillery to dual feed distillery which will enhance the company's ability to mitigate risk associated with commodity inflation. The project cost is estimated to be around ₹60 crore financed through a mix of fresh term loan of ₹42 crore where the company is eligible for the 50% interest subvention scheme of government and internal accruals. This apart, there are no major capital expenditures that DBOL has envisaged in the medium term and hence leverage, and coverage indicators are expected to improve going forward and remain comfortable.

Key weaknesses

Moderation in operational performance weighing pressure on margins in FY24 attributable to regulatory environment

In FY24, DBOL registered a decline in the TOI by around 24% from ₹2,401.69 crore in FY23 to ₹1,814.65 crore due to low sales quota allocation driven by the government, ban on sugar export for SS 2023-24, and government's restriction on diversion of sugar syrup and B-Heavy towards ethanol. At the end of H1FY24, the company's sugar inventory stood at 1.03 lakh quintal against 10.60 lakh quintal in H1FY23. Consequently, based on the closing stock, a lower sales quota was allocated by the government, and the sales volume in Q3FY24 stood at 3.09 lakh quintal against 10.76 lakh quintal in Q3FY23; likewise in Q4FY24, the sales volume stood at 7.98 lakh quintal against 14.25 lakh quintal in Q4FY23. Subsequently, the total sugar sales volume witnessed a degrowth of 33% in FY24 at 30.4 lakh quintals as against 45.3 lakh quintals in FY23, whilst support derived from rising sugar realisation, which stood at ₹3,835 per quintal in FY24 increased from ₹3,668 per quintal in FY23. Sugar exports were also banned, and exports went down to 0.68 lakh quintals in FY24 from 6.98 lakh quintals in previous year. The ethanol segment was also hit as sales were primarily made in Q1 due to no diversion of sugarcane towards ethanol and sales volume stood at 82.68 million BL, with 74.3 million BL from B-Heavy and only 5.22 million BL from syrup in FY24 as against 98.06 million BL in FY23, with 51.31 million BL from B-Heavy and 46.7 million BL from syrup, resulting in 88.52 million BL ethanol sales in FY23. The gross recovery rate in FY24 stood at 11.34% Y-o-Y as against 11.01% in FY23, while the net recovery also stood at 10.3% in FY24 from 9.42% in FY23. The recovery rates were low in FY23 compared to previous years due to the severe pest infestation in Asmoli and Mansurpur units.

Due to low sales in FY24, the inventory levels rose by 83% compared to FY23, resulting in unrealised profits held as inventory which is expected to be largely realised by H1FY25. Hence, the PBILDT margin moderated to 6.88% in FY24 from 8.47% in FY23. CARE Ratings believes that the increase in sales quota, gradual realisation of inventory, benefit from the dual feed stock distillery expected to be commissioned in Q3FY25, and increased sugar and ethanol prices will aid profits in the medium term.

Vulnerable to agro-climatic risks, 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. DBOL's profitability, and 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. 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. 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.

Working capital-intensive operations

The sugar industry being seasonal in nature has high working capital requirements in the peak season, which is from November to April. The companies have high working capital requirements in the peak season to procure their primary raw material, sugarcane, and manufacture sugar in this period. The company's operating cycle remained moderate and elongated to 192 days as on March 31, 2024 from 148 days as on March 31, 2023, owing to elevated sugar inventory level of 208 days against 160 days) in the previous year as closing sugar inventory increased from 14.7 lakh quintal as on March 31, 2023 to 26.9 lakh quintals as on March 31, 2024, mainly due to sugar sales quota and low sugar diversion towards ethanol due to restriction imposed by government on diversion of sugar syrup and B-heavy towards ethanol.

Profitability of Uttar Pradesh-based sugar mills continues to depend on state government policy on cane prices

DBOL's profitability, and 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 and 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 remains adequate, marked by gross cash accruals of ₹105.24 crore in FY24 and expected cash accruals in the range of ₹140-180 crore against debt repayment of ₹64.09 crore and ₹59.85 crore in FY25 and FY26, respectively. The company's working capital requirements is met by sanctioned limit of ₹1,100 crore with an average utilisation for the trailing 12 months period ended with March 31, 2024, of 50% leaving adequate buffer in form of unutilised limits to absorb any fluctuation in demand and prices. The operating cycle increased in FY24 to 192 days as against 148 days in FY23 considering significantly high inventory as the company could not liquidate the stock due to low sugar quota allocation. As on March 31, 2024, sugar inventory stood at

₹934 crore (2.69 lakh tons valued at average rate of ₹34.71/kg) as against ₹498 crore (1.47 lakh tons valued at average rate of ₹33.93/kg) as on March 31, 2023.
CARE Ratings also notes that the inventory days remain relatively high in comparison to other industries as manufacturing of sugar takes place in November to April, while sales take place uniformly in the complete year and also due to imposition of sales quota on sugar companies which led to high inventory days.

Assumptions/Covenants: NA

Environment, social, and governance (ESG) risks: NA

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar
Short term instruments
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

DBOL was demerged from Dhampur Sugar Mills Ltd (DSML) vide a Scheme of Arrangement approved by the Board of Dhampur Sugar Mills Ltd on June 7, 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 company's promoters, Gaurav Goel and 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. DSML had plants at five locations, 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 three 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)	March 31, 2024 (A)
Total operating income	1,531.50	2,401.69	1,814.65
PBILDT	155.25	203.31	124.89
PAT	104.49	112.02	48.82
Overall gearing (times)	0.94	0.81	1.04
Interest coverage (times)	5.23	4.99	2.76

A: Audited Note: 'these are latest available financial results'.

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: 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		-	-	-	642.50	CARE A; Stable
Fund-based - LT-Term loan		-	-	31-03-2025	276.95	CARE A; Stable
Fund-based - LT-Working capital demand loan		-	-	-	100.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	115.00	CARE A1

Annexure-2: Rating history for 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	276.95	CARE A; Stable	-	1)CARE A+; Stable (13-Sep-23)	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 (13-Sep-23)	1)CARE A+; Stable (26-Jul-22)	-
3	Fund-based - LT-Cash credit	LT	642.50	CARE A; Stable	-	1)CARE A+; Stable (13-Sep-23)	1)CARE A+; Stable (26-Jul-22)	-
4	Non-fund-based - ST-BG/LC	ST	115.00	CARE A1				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: NA

Annexure-4: Complexity level of 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
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all entities consolidated: NA

Note on complexity levels of 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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Ravleen Sethi Director **CARE Ratings Limited** Phone: 91-120-4452016 E-mail: ravleen.sethi@careedge.in Akhil Kumar Associate Director **CARE Ratings Limited** Phone: 91-120-4451986 E-mail: akhil.kumar@careedge.in Bhoomika Sharma Rating Analyst **CARE Ratings Limited** E-mail: Bhoomika.Sharma@careedge.in

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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