Uttam Sugar Mills Limited

December 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	895.47	CARE A-; Positive	Upgraded from CARE BBB+; Positive
Short-term bank facilities	27.00	CARE A2+	Upgraded from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has upgraded ratings assigned to bank facilities of Uttam Sugar Mills Limited (USML). Revision in ratings factor in improvement in the company's overall financial risk profile characterised by sequential improvement in leverage and coverage metrics backed by sustained healthy scale of operations over the years. CARE Ratings notes some moderation was registered in H1FY25 (refers to April 01 to September 30) due to low cane availability in the specific region and government measures regarding restriction on sugar export and diversion of sugar syrup and B-heavy molasses towards ethanol production for the sugar season 2023-24 which has now been lifted with effect from November 01, 2024.

CARE Ratings further believes the lifting of ban on diversion towards ethanol effective from November 01, 2024 and better cane availability with the onset of sugar season 2024-25, H2FY25 (refers to October 01 to March 31) will be relatively better off with higher contribution coming from distillery segment, higher operating capacity and benefits accruing from the recently completed energy efficiency programs by the company leading to low steam consumption and higher bagasse saving. Full benefits of the expanded capacity at USML distillery will reflect from H2FY25 with better cane availability and also lifting of the ban by the government. This will enhance USML's overall earnings in H2FY25 and shall positively aid its financial risk profile and hence ratings continue to be on positive outlook.

Ratings continue to derive strength from its experienced promoters having long track record of operations in sugar industry and the company's integrated operations with presence in sugar, bagasse-based cogeneration and molasses- based distillery through geographically distributed manufacturing units in Uttar Pradesh and Uttarakhand, reflecting the company's ability to efficiently wither out the industry cyclicality. CARE Ratings also considers the diversification in grain-based distillery through the subsidiary Uttam Distilleries Limited (UDL) which is expected to ramp up with FY25 being the first full year of operations and proposed capacity enhancement from 40 KLPD to 160 KLPD. However, ratings strengths continue to remain constrained with working capital intensive operations and exposure to cyclical and seasonal sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The company's ability to improve operating profitability on a sustained basis such that gross cash accruals (GCA) in the range of ₹200-220 crore.
- Improvement in net debt to profit before interest, lease rentals, depreciation, and taxation (PBILDT) to less than 3.2x on a sustained basis with interest coverage of 4.5x or more.

Negative factors

- Increase in total outstanding liabilities to tangible net worth (TOL/TNW) beyond 1.8x and/or net debt to PBILDT above 4.5x on a sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity significantly.
- Decline in the company's profitability marked by decline in PBILDT margin below 10% or less on a sustained basis.

Analytical approach: Consolidated

For analysing USML, consolidated financials have been considered due to the presence of common management, operational and financial linkages with the subsidiary UDL. The entities considered in consolidation are mentioned in Annexure-6 below.

Outlook: Positive

Continuation of positive outlook assigned for USML's long-term bank facilities reflects CARE Ratings expectation that the company's credit risk profile will continue to improve sequentially over the medium term with moderate capex commitments in the medium term against healthy cash accruals and sustained financial risk profile. However, the outlook may be revised back to stable if the company achieves lower-than-envisaged accruals in the medium term which may impact the company's debt protection and coverage indicators.

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

Detailed description of key rating drivers:

Key strengths

Healthy operational performance expected to sustain

The first half of the current fiscal 2024 was subdued for the sugar players majorly considering lower cane availability faced due to erratic rainfall in the previous sugar season 2023-24 and also due to restriction imposed by the government on diversion of sugar syrup and B-heavy molasses towards ethanol. USML's total income reduced to ₹843.85 crore in H1FY25 from ₹1067.91 crore in H1FY24. Cane crushing declined from 432.04 lakh quintal in SS2022-23 to 325.37 lakh quintal in SS2023-24.
The company's PBILDT margin also subdued to 5.11% in H1FY25 against 10.60% in H1FY24 as ethanol production decreased to 208.57 BL in lakhs in H1FY25 from 339.08 BL in lakhs from C heavy fetching slightly lower realisation and lower distillery volumes. The performance is expected to improve in H2FY25 considering better availability of cane and lifting of restriction on diversion of sugar syrup and B-heavy molasses towards ethanol production. Additionally, the enhanced cane crushing capacity of 3,250 TCD and distillery capacity of 100 KLPD will also be utilised in the SS2024-25 and years ahead and USML could not fetch full benefits from this owing to cane shortage and ban on diversion. The capex was incurred with the objective of reducing steam consumption which has already come down to an average of 39% in SS2024-25 from 46% in SS2022-23, leading to saving of bagasse.

Moderate despite improving financial risk profile

The company's capital structure remained comfortable but leveraged with high dependence on working capital borrowings due to seasonal sugar industry and high inventory at fiscal 2024 end despite improvement in overall financial risk profile is demonstrated with declining debt. USML's total debt stood at ₹282.81 crore as on September 30, 2024, declined from ₹356.17 crore as on September 30, 2023. Therefore, the improvement can be seen in overall gearing which stood at 0.41x as on September 30, 2024 (PY: 0.58x).
The coverage indicators marked by PBILDT interest coverage ratio have been consistently improving since the last three fiscals from 3.5x in FY22 to 4.67x in FY23 and 4.77x in FY24. The total debt to GCA stood moderate at ~3.5x to 4.5x in the last two fiscals ending FY24. Indicators moderated in H1FY25 o 22.12x and 1.46x, respectively, considering lower profitability in H1FY25, considering subdued industry scenario. This is a short-term phenomenon and coverage metrics are expected to sustain over the medium term owing to moderate capex requirements. USML has moderate capex requirements of ~₹60-70 crore over the next two fiscal years which will be largely funded through internal accruals though the company may avail debt based on requirements. Further, there is debt-funded capex in UDL to enhance the capacity from 40 KLPD to 160 KLPD for a total cost of ₹75 crore to be funded through term loan of ₹60 crore and rest ₹15 crore to be funded by support from USML.
CARE Ratings expects the capital structure to improve with higher accruals coming from the enhanced capacity of sugar and distillery segments with better juice recovery and improving realisations.

Forward integrated operations with healthy business risk profile

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. Currently, USML operates four manufacturing plants situated across Uttar Pradesh (UP) and Uttarakhand, Libberheri (Roorkee, Uttarakhand), Barkatpur (Bijnor, UP), Khaikheri (Muzaffarnagar, UP) and Shermau (Saharanpur, UP) with an overall aggregate crushing capacity of 27,000 TCD as on September 30, 2024. USML's sugar recovery has been continuously high and improving to 11.58% in H1FY25, 10.49% in FY24 and 10.60% in FY23. In SS 2023-24, the government restricted the diversion of sugar syrup and B-heavy molasses towards ethanol production which led to decline in ethanol's sale to 254.03 lakh BL in H1FY25 against 354.91 lakh BL in H1FY24. Operational metrics across segments are expected to improve owing to removal of restriction on diversion of sugar syrup and B-heavy molasses towards ethanol for SS2024-25 and better cane availability in the country.

Experienced promoters with long track record of operations in sugar industry

USML is managed by Raj Kumar Adlakha, Managing Director, who has about three and a half decades of experience in the sugar business. Raj Kumar Adlakha is further assisted by a team of professionals equipped in spectrum of business including finance, manufacturing, distribution, and marketing among others. Currently, USML operates four manufacturing plants situated at Libberheri (Roorkee, Uttarakhand), Barkatpur (Bijnor, UP), Khaikheri (Muzaffarnagar, UP) and Shermau (Saharanpur, UP) with an overall aggregate capacity of 27,000 TCD, 122 MW and 300 KLPD as on September 30, 2024.

Key weaknesses

Working capital intensive operations due to seasonal sugar industry

The sugar industry, being seasonal 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, such as sugarcane and manufacture sugar in this period. However, the company is planning to de-risk its model by reducing dependence on sugar. The company's operating cycle 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 low sugar sales quota and restriction imposed by the government on diversion of sugar syrup and B-heavy towards ethanol.

Cyclical and regulated sugar industry

The industry is cyclical and vulnerable to government policies for reasons like its importance in the wholesale price index (WPI) as it classifies as an essential commodity. The government on its part resorts to regulations like fixing raw material prices in the form of state advised prices (SAP) and fair and remunerative prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the sugar companies' profitability. USML's profitability, and other UP/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 particular year. Profitability remains vulnerable to the government's policies on exports, MSP and remunerative ethanol prices. In addition, the cyclicality in sugar production results volatility in sugar prices. However, the sharp contraction in sugar prices is curtailed after MSP's introduction 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 lower volatility in sugar prices and cash flows from the sugar business.

Liquidity: Adequate

The company's liquidity is adequate characterised by sugar inventory of 7.75 lakh quintals (qtls) at a valuation of ₹3379 per qtl as on September 30, 2024 (as on March 31, 2024- 23.53 lakh qtls at ₹3390 per qtl). The company has scheduled debt repayment obligations of ₹38.99 crore for FY25, of which USML has already repaid ₹22.88 crore in H1FY25. Additionally, the company has sanctioned working capital limit of ₹782 crore with an average utilisation for the trailing 12 months period ended with October 2024 of 83.80% leaving adequate buffer in form of unutilised limits to absorb fluctuation in demand and prices.

USML's capex requirement is moderate at ~₹60 crore in FY25-26 which will largely be funded through internal accruals. The company may avail debt of ~₹25 crore in FY26 for which the company has headroom in the gearing. Additionally, UDL will also be incurring capex in FY27 of ~₹75 crore to be funded through debt of ₹60 crore and rest ₹15 crore infusion by USML.

CARE ratings also continue to note Uttarakhand State Government's Soft Loan (Loan o/s ₹6.57 crore (PY: 6.57 crore) and interest accrued ₹5.04 crore as on March 31, 2024 (PY: ₹4.77 crore), which was towards the financial assistance to fund difference between SMP and SAP, this 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. Although USML has adequate liquidity and intent to repay the said loan.

Environment, social, and governance (ESG) risks

CARE Ratings believes USML's Environment, Social, and Governance (ESG) profile supports its already comfortable credit risk profile. Sugar sector has a high impact on the environment because of large energy and emissions and higher dependence on water resources. The sector has a high social impact because of its labor-intensive operations. USML has continuously focused on mitigating its environmental and social impact.

Environment: Considering the company's corporate policy for reducing the use of ground water, USML has achieved almost zero ground water extraction in plants, except water required for drinking purpose, starting and closing of plant and alternate emergency requirement for use in boilers. Most process condensate generated in juice boiling is now being utilised after treatment in place of fresh ground water. Efforts made by the 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 plants. All the four sugar factories have bagasse-based co-generation power plants, partly used for captive consumption and balance being exported to UP/Uttarakhand Power Corporation Limited.

Social: The company implemented social activities in the neighbouring villages of the company's factories/other areas for the welfare of general public living there. Many efforts and initiatives have been put in place to ensure employee health and safety. The company has a health and support wellness program at every manufacturing unit where it offers a range of reliable self-help resources. Additionally, the company offers personalised help from professional counsellors such as psychological counsellor supporting physical health, mental health and e-workshops on topics such as parenting, and relationship among others.

Governance: USML's governance structure is characterised by 57% board comprising independent directors (including one women independent directors), presence of grievance redressal mechanism and robust governance policies.

Applicable criteria

Consolidation
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

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food and other products	Sugar

The company's erstwhile promoters, M K Swarup and his family incorporated Associated Sugar Mills Limited on October 4, 1993. Raj Kumar Adlakha and his family and associates acquired the company in October 1998. Later, the company's name was changed to Uttam Sugar Mills Limited (USML). The company is engaged in manufacturing sugar, ethanol and cogenerated power. The company has four sugar plants, of which, one is in Uttarakhand and other three in UP. The company has an aggregate sugarcane crushing capacity of 27,000 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 September 30, 2024.

Brief Financials (₹ crore)*	31-03-2023 (A)	31-03-2024 (A)	H1FY25 (UA)
Total operating income	2,058.87	2,046.86	859.12
PBILDT	244.82	265.82	42.80
PAT	123.62	132.21	-8.32
Overall gearing (times)	1.10	1.13	0.38
Interest coverage (times)	4.67	4.77	1.42

A: Audited UA: Unaudited; Note: these are latest available financial results
*UDL was acquired in H1FY25, therefore FY23 and FY24 are Standalone financials while H1FY25 is consolidated.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	807.00	CARE A-; Positive
Fund-based - LT-Term Loan		-	-	December 2028	88.47	CARE A-; Positive
Non-fund-based - ST-BG/LC		-	-	-	27.00	CARE A2+

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	88.47	CARE A-; Positive	1)CARE BBB+; Positive (05-Jun-24)	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 A-; Positive	1)CARE BBB+; Positive (05-Jun-24)	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 (05-Jun-24)	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; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Uttam Distilleries Limited	Full	Subsidiary of USML and has strong operational and financial linkages

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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