Dhampur Sugar Mills Limited

March 26, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Fixed Deposit	-	-	Reaffirmed; Outlook revised from Stable and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the outlook from 'stable' to 'negative' while reaffirming the rating of fixed deposit instrument of Dhampur Sugar Mills Limited (DSML) at CARE A+ and simultaneously withdrawn the rating with immediate effect based on the request of DSML, No Objection Certificates from part deposit holders, confirmation from DSML that the funds have been deposited in an escrow account for remaining deposit holders and certificate from the statutory auditor in respect of both.

CARE Ratings expects the performance in FY25 and FY26 to remain moderate against the earlier estimates as the company is focussing on shifting to newer cane varieties to reduce the infestation risk. However, the entire process is time consuming which may impact the yield, profitability, and cash accruals in near-to-medium term and hence the outlook has been revised to negative. The expected cash accruals in FY25 and FY26 are ₹110-121 crore against debt repayments (excluding lease liabilities) of ₹79 crore and ₹89 crore, respectively.

Reaffirmation in the rating continues to derive strength from DSML's well-established and long track record in the sugar industry, forward-integrated nature of operations with presence into the distillery and power cogeneration limiting the exposure of DSML to industry cyclicality to a large extent.

CARE Ratings also takes note of the dip in revenue, profitability, and cash accruals of DSML in 9MFY25 (refers to period April 01 to December 31) owing to low cane availability and low sales from ethanol segment due to erratic rainfall, impact of red rot infestation and restriction on sugar exports and diversion towards ethanol in last sugar season leading to moderation in overall financial risk profile and liquidity position of the company in fiscal 2025.

The rating continues to be constrained by the vulnerability of DSML's profitability to the cyclical and seasonal nature of the sugar industry and working capital intensive operations.

Analytical approach: Standalone

Outlook: Negative

Revision in the outlook from 'Stable' to 'Negative' reflects higher-than-envisaged weakening in the operating performance of the company leading to decline in scale and profitability and lower cash accruals. The 'Negative' outlook also factors in the expectation of lower accruals in the near-to-medium term considering pest infestation and also switching to newer cane varieties which will take time to yield results. DSML has high working capital utilisation and there is moderation in debt-coverage and leverage indicators which may weaken the credit profile further and trigger a rating action. The outlook may be revised to 'Stable' if DSML achieves healthy growth in revenue and profitability while maintaining a healthy liquidity buffer.

Detailed description of key rating drivers:

Key strengths

Forward integrated operations and diversified revenue stream with increasing focus on Ethanol production to aid inventory management

With a solid operational history of over nine decades, DSML has built a strong business profile through its integrated operations, which include cane crushing, ethanol production from molasses, and power generation from bagasse for both captive consumption and merchant sales. The company's diverse product range has improved its risk profile and bolstered overall stability.
DSML 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), distillery capacity of 350 kilolitre per day (KLPD) and potable spirits capacity of 20,000 cases per day (CPD) as on February 28, 2025. This integration enables the company to optimize its resource utilisation to maximum levels.

Robust operational efficiencies supporting the overall financial risk profile, however, slight moderation in FY24 and 9MFY25

The command area of the company was impacted by the red-rot infestation, which significantly impacted the sugarcane supply. Despite non-availability of adequate good quality sugarcane, and temporary interruption of the National Biofuel Policy, 2018 and

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

ban on sugar exports, the total operating income (TOI) in FY24 showed only a marginal dip of 10% to ₹2,163.65 crore. The operating profitability remained stable at 12.14% in FY24 (PY: 12.22%) partially supported by healthy sugar realisations. In 9MFY25, DSML showed recovery in ethanol sales post lifting of the restrictions in Q3FY25, however, remained significantly low y-o-y. In 9MFY25, the revenue declined from ₹1,977.24 crore in corresponding period of previous year to ₹1,845.35 crore while the operating profitability slipped from ~9% to ~4%, the same is expected to improve in Q4FY25 and further normalise in FY26, however, owing to the shift in cane variety impacting the yield, the margins may remain lower than earlier estimates in near-to-medium term.

DSML reported gross recovery of 11.57% against 12.04% in FY23. However, the net recovery rate improved to 9.56% in FY24 from 7.84% in FY23 due to non-diversion of sugar syrup and B-heavy towards production of ethanol. For 9MFY25, the gross and net recoveries stood at 10.35% and 8.76% (PY: 11.06% and 8.18%), respectively. The decline in recovery rates was offset by healthy increase in sugar realisations, which increased by 7% in FY24 and 4% in 9MFY25, respectively. In FY24, the company crushed 36.69 lakh tonnes of cane compared to 39.02 lakh tonnes in FY23.

The company's capital structure remained comfortable in past years demonstrated by the overall gearing around unity. However, owing to the restrictions imposed by the government on diversion and export of sugar in last SS led to higher closing inventory resulting into higher working capital utilisations and moderation in revenue and profitability in FY24 and 1st half of fiscal 2025. The aforesaid factors also led to moderation in coverage indicators as interest coverage reported at 5.54x (FY23: 6.43x) and net debt to PBILDT stood at 3.66x as on March 31, 2024, compared to 2.5x in previous year. Going forward, with gradual recovery in profitability and stock realisation, net debt will also improve sequentially from FY26 and onwards, however, FY25-end debt is likely to close at similar level of FY24.

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 31 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 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. For 12 months ending January 2025, the average working capital utilisation on a sanctioned limit of ₹840 crore stood at 83.94% while the maximum utilisation reaches ~92% leaving minimal buffer for exigency, however, the utilisation levels are expected to normalise gradually as the crushing gets over for the ongoing season and inventory is sold per the allocated quota. Operating cycle stood at 151 days in FY24 (PY: 119 days).

Cyclical and regulated sugar industry
The industry is cyclical and seasonal by nature and is vulnerable to the government policies for reasons such as its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government resorts to 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, and other Uttar Pradesh-based sugar mills, continues to remain vulnerable to the state government's policy on cane prices and excise regulations. 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. While the sharp contraction in sugar prices is somewhat curtailed after the introduction of MSP by the Central Government in June 2018, the MSP has remained unchanged at ₹31 per kg, in last five years, thus resulting in excessive pressure on margins.

Liquidity: Adequate

Liquidity is marked by expected cash accruals of ₹110-121 crore in FY25 and FY26 against the repayment obligations of ₹84 crore (already repaid ₹71 crore till January 31, 2025) and ₹89 crore each. This is further aided by total cash and equivalents of close to ₹31 crore as on February 28, 2025 and sugar inventory of ₹680 crore (1.79 lakh tons valued at average rate of ₹38/Kg) as on January 31, 2025, which will be liquidated in next 1-2 quarters aiding the profitability and cash accruals. The company has sufficient sanctioned CC limits to manage its working capital requirements. However, such limits are almost fully utilised currently, with an average utilisation of 83.94% in 12 months ending January 2025. The company does not have major capex plans for the foreseeable future. Operating cycle stood at 151 days in FY24 compared to 120 days in FY23 considering increase in inventory days which reduced from 130 days in FY23 to 155 days in FY24.

Environment, social, and governance (ESG) risks

Sugarcane is an agri-commodity and prone to climatic risks. Climatic conditions and pests' attacks and other factors can affect sugarcane productivity, recovery and in turn have an impact on an entity's profitability. The company's sugar facilities are in Dhampur, and Rajpura, UP, the areas affected by the red rot disease and thus affecting the cane availability. 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: DSML is investing in technologies to minimise resource consumption and is implementing water conservation measures, including rainwater harvesting. Its environmental policy is targeted towards efficient management and reduction of land, water, and air pollution. The company further promoted green belts and plantations, planting 27,750 trees in FY23-24.

Social: DSML collaborated with PHD Rural Development Foundation for social welfare including healthcare, water conservation, and other initiatives. It also provided mobile health services, supported educational incentives, among others.

Governance: Transparent and ethical business practices are followed with highest standards of corporate governance, ensuring accountability, integrity, and fairness in all its dealings. It has established robust internal control systems, risk management frameworks, and compliance to mitigate any potential risks.

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

About the company and industry

Industry classification

Macroeconomic 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, 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, 2024, DSML has a total sugar capacity of 24,000 TCD, 126.5 MW of power, and 350 KLPD of ethanol and 20,000 CPD of potable spirits.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	2,405.27	2,163.65	1,845.35
PBILDT	294.01	262.66	67.90
PAT	150.30	132.91	2.77
Overall gearing (times)	0.72	0.90	NA
Interest coverage (times)	6.43	5.54	1.77

A: Audited UA: Unaudited; NA: Not Available Note: these are latest available financial results

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
Fixed Deposit	-	-	7.50	April 2026	0.00	Withdrawn

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-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)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (06-Mar-23) 2)CARE A+; Stable (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)
3	Fixed Deposit	LT	-	-	1)CARE A+; Stable (05-Apr-24) 2)CARE A+; Negative (17-Mar-25)		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)

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	Fixed Deposit	Simple

Annexure-5: Lender details

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

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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