Uttam Sugar Mills Limited (Revised)

February 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	970.37	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	37.50	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**1,007.87 (Rs. One Thousand Seven Crore and Eighty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation for the bank facilities of Uttam Sugar Mills Limited (USML) takes into account the improved financial risk profile during FY21 (refers to period April 01 to March 31) and 9MFY22 (refers to period from April 01 to Dec 31) as characterized by its increased scale of operations and profitability. The ratings factor in the favourable impact of higher domestic and international sugar prices, along with increased distillery volumes from the expanded capacities in 9MFY22 as well as improved ethanol realizations on its profitability and coverage metrics. These operational metrics are expected to remain healthy going forward as well.

The ratings continue to derive strength from its experienced promoters and management team, long track record of operations and forward integration into cogeneration and distillery businesses across UP and Uttarakhand. Its forward integration into distillery and co-generation provides alternate revenue streams and acts as a cushion against the prevalent cyclicality in the sugar business to some extent. Over the medium term, USML's operating profits are likely to be less volatile than the historical levels, driven by the expected continuation of MSP and the industry's focus on diverting of excess cane towards ethanol production. The ratings, however, remain constrained by working capital-intensive nature of operations, leveraged capital structure, high debt repayments in medium term and cyclical and regulated nature of sugar industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability of the company to improve profitability and achieve Interest coverage indicators above 4x on sustained basis.
- Improvement in Total debt to EBITDA below 2.40x on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Increase in overall gearing beyond 3.00x 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

Detailed description of the key rating drivers

Key Rating Strengths

Integrated business model and diversified revenue stream

The company is forward integrated into cogeneration and distillery operations that de-risk the core sugar business of the company to some extent. During FY21, the distillery and power division together contributed around 13.04% of the TOI (PY: 12.46%) and balance 86.96% was from the sugar division. USML is having 4 sugar plants situated at Libberheri (Roorkee, Uttarakhand), Barkatpur (Bijnor, U.P), Khaikheri (Muzaffarnagar, U.P) and Shermau (Saharanpur, U.P) with an overall running capacity of 6250, 7000, 4500 and 6000 TCD respectively. Apart from sugar operations, USML has a bagasse-based cogeneration power plant of 103 MW (55.5 MW exportable) capacity at all the four sugar factories. The power produced by the cogeneration plants is utilized for running the own sugar mills and surplus power is exported. USML also has a distillery unit with installed capacity of 150 kilo litre per day (KLPD) at Barkatpur unit. Furthermore, the company has completed its capex on setting up an incineration boiler at its Barkatpur unit, which will enable to run the distillery in rainy season and another capex for 50 KLPD of distillery capacity at Libberheri Unit has also been completed. The two capex have resulted in increase of the ethanol capacity from 4.05 cr. litre per year to 6.75 cr. litre per year. The increased distillery capacity will lead to increased

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

ethanol production and further de-risks USML's dependence on its sugar segment and enhance the overall sales & profitability of the company from FY22

Increasing scale of operations along with improving profitability margins

During FY21, the TOI of the company grew by ~11% to Rs.1824.78 crore as compared to Rs.1651.37 crore in FY20. The increase in total income from operations was increased sugar sales from 32.76 lakh quintal in FY20 to 37.29 lakh quintal in FY21. The PBILDT margins of the company also improved slightly to 12.27% from 11.43% in FY20. This was mainly on account of higher realizations in the sugar segment compared to last year and more diversion towards B-Heavy ethanol in FY21 compared to FY20 (Increase in B-Heavy ethanol production to 252.22 Lakh BL (84.28%) in FY 2021 from 70.78 Lakh BL (24.15%) in FY 2020) leading to higher margins as B-Heavy ethanol is associated with higher profitability. Further in 9MFY22, company has reported 22% growth in its operating income primarily driven by higher sales from Sugar & distillery division and likewise it has achieved PBT of Rs 99.68 crore in 9MFY22 as against Rs 51.86 crore in 9MFY21.

Experienced promoters and management team

The promoter of the company, Mr. Raj Kumar Adlakha is a mechanical engineer and has about three and a half decades of experience in the sugar business. Established in 1969, the Uttam Group of companies, provides a broad spectrum of products and services to a wide range of industry verticals, including sugar, power, engineering, chemicals, petrochemicals, cement and infrastructure. The group has competency in executing turnkey EPC projects, especially for sugar factories, power plants and co-generation plants. The Uttam Group (Engineering Division) executes sugar plants and power plants on turney/ EPC basis and has supplied 400+ installations across India, Africa and South East Asia. The founder of the group is Mr. Uttam Chand Adlakha, father of Mr. Raj Kumar Adlakha, who started the group in 1962 for manufacturing spare parts. Mr. Raj Kumar Adlakha is assisted by a team of experienced professionals in looking after the overall affairs of the company.

Industry Outlook

For next season SS21-22, sugar production is expected to remain stable y-o-y at 31 million tonnes and export sentiments also look strong in the wake of tight global supply scenario. Further, with government's push toward boosting ethanol capacities, diversion of sugarcane / sugar juice towards the same has been reducing sugar output and thus rationalizing the sugar inventories in the country. The government has advanced 20% ethanol blending target from 2030 to 2025. Further, the government has announced remunerative ethanol pricing and incentive schemes (such as interest subvention) to build up capacities to achieve the same. It is believed that the with sugar inventories getting rationalised, demand-supply balance levelling out and considerable increase in ethanol sales, the cash flows of integrated sugar mills is going to enhance.

Key Rating Weaknesses

Leveraged albeit improving capital structure

The debt to equity and overall gearing ratios of the company stood leveraged however, improved as on March 31, 2021 to 1.08x and 2.58x, respectively (PY: 1.43x and 3.11x, respectively). While the total debt of the company stood almost at the same level as on March 31, 2021, the capital structure improved on account of accretion of profits to the net worth. As the company's operations run as per the sugar season, the working capital borrowings outstanding at the end of the year are generally on a higher side. While the long-term debt of the company decreased in FY21 on account of scheduled repayments, the working capital borrowings stood higher at Rs.505.42 cr. as on March 31, 2021 compared to Rs.468.80 cr. as on March 31, 2020. The working capital borrowings outstanding as on September 08, 2021 stood at Rs.415.95 cr.

Working capital intensive operations

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. Though the company has de-risked their model by reducing dependence on sugar to some extent, the fortune of sugar segment may affect the overall profitability and fund requirement. The average working capital utilization for the twelve months period ended December 2021 stood at 78%.

Cyclical & 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. 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. Further, the profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. In current season, in UP-SAP was increased by Rs. 25/quintal which can limit the profitability but firmed up domestic prices are likely to offset this risk to some extent. 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. Further, healthy exports and higher diversion of sucrose towards ethanol in the recent years resulted in favorable demand-supply dynamics in the country, thus resulting in improved realizations 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 with stable cash accruals and cash and bank balance of Rs.8.94 crore as on March 31, 2021. Current ratio stood at 0.94x as on March 31, 2021 against 0.95x as on March 31, 2020, it continues to be below unity on account of high repayments & high working capital borrowings. Operating cycle of the company remained almost at the previous year levels at ~119 days in FY21. The company has high inventory days as manufacturing of sugar takes place during November to April, while sales takes place uniformly during the complete year and also due to imposition of sales quota on sugar companies which led to high inventory days. Sugar inventory stood almost at the same level as the previous year at Rs.928 cr. as on March 31, 2021. Cane dues as on September 30, 2021, stood at Rs.15.38 crores which were consequently paid off on October 04, 2021. Further for the new season, the total cane due to the respect of 82% has been paid off till Feb 03, 2022 and only Rs 93.93 crore is outstanding cane dues.

As on Dec 31, 2021 USML has sugar inventory of Rs 384.36 crore. The liquidity profile of the company remains adequate with stable cash accruals and cash and bank balance of Rs.8.94 crore as on March 31, 2021. The company has term debt repayment of Rs.140.63 cr. in FY22 out of which close to Rs 130.15 crore is already paid partly from the cash accruals and partly from the cash flows due to sale of sugar inventory. Further, CARE expects its cash flow from operations to increase in FY2022, driven by higher operating profits and lower working capital intensity due to the expected decline in the sugar inventory. This along with the cushion in the working capital limits would allow the company to comfortably meet its the debt repayment obligation

CARE notes an outstanding amount of Rs. 10.81 crore from the Uttarakhand Government is long overdue. As per the management, these loans remain outstanding basis an understanding of a waiver consideration by the state government. Further, the state government has not raised the demand and has given subsidies (higher than this amount) since then, not adjusting for this amount.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Rating Methodology - Sugar Sector
Liquidity Analysis of Non-Financial Entities
Criteria for Short Term Instruments

About the Company
The erstwhile promoters of the company, Mr. 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 aggregate sugarcane crushing capacity of 23,750 TCD (tonnes of cane per day), cogeneration capacity of 103 MW and Ethanol production capacity of 200 KLPD (kilo litre per day) as on Dec 31, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	1,651.37	1,824.78	1543.94
PBILDT	188.74	223.83	181.19
PAT	51.63	59.76	73.86
Overall gearing (times)	3.08	2.58	NA
Interest coverage (times)	2.39	2.60	3.18

A: Audited, UA: Un-Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2025	334.37	CARE BBB-; Stable
Fund-based - LT-Cash Credit		-	-	-	636.00	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	37.50	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	334.37	CARE BBB-; Stable	1)CARE BBB-; Stable (22-Sep-21) 2)CARE BB+; Stable (05-Apr-21)	1)CARE BB+; Stable (06-Apr-20)	-	1)CARE BB-; Positive (19-Dec-18)
2	Fund-based - LT-Cash Credit	LT	636.00	CARE BBB-; Stable	1)CARE BBB-; Stable (22-Sep-21) 2)CARE BB+; Stable (05-Apr-21)	1)CARE BB+; Stable (06-Apr-20)	-	1)CARE BB-; Positive (19-Dec-18)
3	Non-fund-based - ST-BG/LC	ST	37.50	CARE A3	1)CARE A3 (22-Sep-21) 2)CARE A4+ (05-Apr-21)	1)CARE A4+ (06-Apr-20)	-	1)CARE A4 (19-Dec-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	**NA**
B. Non-financial covenants	
Substantial effect on profit or business	Effect any change in borrower's capital structure where shareholding of the existing promoter(s) (a) gets diluted below current level or (b) leads to dilution in controlling stake for any reason without prior permission of the lenders.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of 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: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Ravleen Sethi
Contact no.: 9818032229
Email ID: ravleen.sethi@careedge.in

Relationship Contact
Name: Swati Agrawal
Contact no.: +91-11-4533 3200
Email ID: swati.agrawal@careedge.in

About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**