Uttam Sugar Mills Limited

September 22, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-Term Bank Facilities	970.37	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)**
Short-Term Bank Facilities	37.50	**CARE A3 (A Three)**	**Revised from CARE A4+ (A Four Plus)**
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 revision in the ratings assigned to the bank facilities of Uttam Sugar Mills Limited (USML) takes into account the improvement in financial risk profile during FY21 (refers to period April 01 to March 31) as characterized by its increased scale of operations and profitability. For FY22, the performance is expected to further improve on the back of increased distillery capacity of additional 50 Kilo litres per day operational from July 2021 and also installation of incineration boiler which shall lead to higher sales and profitability.

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. The ratings, however, remain constrained by working capital-intensive nature of operations, leveraged capital structure 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 its capital structure marked by overall gearing of less than 2x on a sustained basis.
- Improvement in Total debt to GCA below 5.00x 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

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, even in Q1FY22, the income from operations increased by ~10% y-o-y & stood at Rs.452.95 crore.

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.

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 ethanol production and further de-risks USML's dependence on its sugar segment and enhance the overall sales & profitability of the company from FY22. In Q1FY22, the company has produced 1.09 cr. litre of ethanol while it only produced 2.99 cr. litre of ethanol in whole of FY21.

Industry Outlook: For SS2020-21, India's sugar output is expected to increase by 13% y-o-y to 30.9 million tonnes as per the estimates released by ISMA. The consumption is expected to be around 26 million tonnes and exports of about 6.8 million tonnes, leading to surplus of 8.7 million tonnes by end of season. The export of sugar in the current SS is supported by the surge in global prices following which the Government reduced the export subsidy from Rs.6/kg to Rs 4/kg on any sugar contracted for export on or after May 20, 2021. Currently it is expected India will end up exporting close to 6.8 or 7MT owing to recent surge in international prices. 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

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 August, 2021 stood at 80.42%.

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.

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.

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 & also on account of high cane dues. 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. Average utilization of the working capital limits stood high at 80.42% for past 12 month ending August, 2021. Cane dues as on September 08, 2021 stood at Rs.49 crore. Also, Sugar Inventory as on August 15, 2021 stood at Rs.774.32 cr. The company has term debt repayment of Rs.140.63 cr. in FY22 out of which close to Rs 40 crore is already paid by August 2021.

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 August 31, 2021.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1651.37	1824.78
PBILDT	188.74	223.83
PAT	51.63	59.76
Overall gearing (times)	3.11	2.58
Interest coverage (times)	2.39	2.60

A: Audited

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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	FY25	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 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 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 A4+ (05-Apr-21)	1)CARE A4+ (06-Apr-20)	-	1)CARE A4 (19-Dec-18)

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

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

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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